S. HRG. 98-213

REVISED PRINTING PROCESS ON THE BACK SIDE OF THE $1 FEDERAL RESERVE NOTE

HEARING

BEFORE THE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS UNITED STATES SENATE

NINETY-EIGHTH CONGRESS

FIRST SESSION

ON

S. 1120

TO AUTHORIZE PRINTING OF THE BACK SIDE OF UNITED STATES PAPER MONEY OF THE DENOMINATION OF $1 BY A METHOD OTHER THAN THE INTAGLIO PROCESS

AND

S. 1374

TO AUTHORIZE THE APPROPRIATION OF FUNDS FOR THE IMPROVEMENT OF FACILITIES OF THE BUREAU OF THE MINT

JUNE 22, 1983

Printed for the use of the Committee on Banking, Housing, and Urban Affairs

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CONTENTS

WEDNESDAY, JUNE 22, 1983

	Page
Opening statement of Chairman Garn	1
Copies of bills being considered:	
S. 1120	3
S. 1374	5

WITNESSES

Angela Buchanan, Treasurer of the United States, U.S. Department of the Treasury	6
Increased production at less cost	6
Expand and improve Denver Mint	8
Good quality and security with less overtime	10
Prepared statement	12
S. 1120, offset printing for currency	12
Background	13
Cost benefit	14
Security	15
Summary	15
S. 1374, mint expansion and improvements	16
Memorandum—U.S. Secret Service	18
Bureau of Engraving and Printing salary information	19
Board of Governors of the Federal Reserve System, comments on proposed legislation	20
Theodore E. Allison, Staff Director for Federal Reserve Bank Activities, Board of Governors of the Federal Reserve System	21
Prepared statement	23
Printing orders for Federal Reserve notes	26
John F. Meese, National Coordinator of the Government Employees Department, International Association of Machinists & Aerospace Workers, AFL-CIO	28
Prepared statement	29
Robert A. Vass, president, Plate Printers Union; and also on behalf of the International Union of Plate Printers, Die Stampers & Engravers Union of North America, AFL-CIO	33
General public acceptance of "cheap" currency	33
Cost savings supposedly to be derived from the offset back	35
The BEP's threat to contract out the printing of postage stamps	36
Additional prepared statement submitted for the record by:	
Washington Plate Printers Union	38
Supplementary statement of Robert Vass	43
Ruttenberg, Friedman, Kilgallon & Associates, Inc	48
International Plate Printers, Die Stampers & Engravers Union of North America	61
Resolution	70
Panel discussion:	
Unions differ on proposal	74
Is there a counterfeiting problem?	76
Reasons for plate printers high wages	77

ADDITIONAL MATERIAL SUPPLIED FOR THE RECORD

Washington Printing & Graphic Communications Union No. 1	79
The Bank Note Engravers Guild of Washington	80
United States General Accounting Office	81

REVISED PRINTING PROCESS ON THE BACK SIDE OF THE $1 FEDERAL RESERVE NOTE

WEDNESDAY, JUNE 22, 1983

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, D.C.

The committee met at 9:30 a.m., in room SD–538, of the Dirksen Senate Office Building, Senator Jake Garn (chairman of the committee) presiding.

Present: Senator Garn.

OPENING STATEMENT OF CHAIRMAN GARN

The CHAIRMAN. The Banking Committee will come to order. This morning the committee will hold a hearing on two bills which I have introduced at the request of the administration. S. 1374 is a $3 million authorization for appropriations to improve the facilities of the Bureau of the Mint. Most of today's witnesses are here to testify on S. 1120, which would permit the Bureau of Engraving and Printing to use a method other than the intaglio method to print the backside of $1 bills.

The Bureau of Engraving and Printing is concerned that it will be unable to meet the projected increases in currency orders of the Federal Reserve System. Passage of S. 1120 would allow the Bureau to use webb-offset printing on the backs of $1 bills, which is much faster than intaglio printing, to increase production. The Bureau also believes that webb-offset printing on the backside of $1 bills would reduce costs, would be acceptable to the American people, and would not significantly increase the risk of counterfeiting.

One of our witnesses here today will testify that passage of S. 1120 is unnecessary because the Bureau will have sufficient capacity to meet increased currency needs. As is often the case, we have two witnesses on different sides of an issue, each with different numbers. Consequently, I have requested that the General Accounting Office, which has already taken a preliminary look at this issue, make a dispassionate and objective examination of all the disputed numbers to determine whether the administation's arithmetic is reasonable and supportable.

[Response to Senator Garn's request of examination for change in printing method from GAO, can be found on p. 81.]

Finally, I would like to mention for the record that this hearing will be the final one for our first witness today, Angela Buchanan, the Treasurer of the United States. She and I have not always agreed on all the issues, but I appreciate her efforts in carrying out the job of Treasurer with a great deal of intelligence, energy, and

integrity, to the credit of this administration and this country. We wish you good luck. Please proceed.

[Copies of the bills being considered follow:]

II

98TH CONGRESS
1ST SESSION

S. 1120

To authorize printing of the back side of United States paper money of the denomination of $1 by a method other than the intaglio process.

IN THE SENATE OF THE UNITED STATES

APRIL 21 (legislative day, APRIL 18), 1983

Mr. GARN (by request) introduced the following bill; which was read twice and referred to the Committee on Banking, Housing, and Urban Affairs

---

A BILL

To authorize printing of the back side of United States paper money of the denomination of $1 by a method other than the intaglio process.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the ninth paragraph of section 16 of the Federal Reserve Act (12 U.S.C. 418) is amended by adding at the end thereof the following: "Notwithstanding any other provision of law, the back side of Federal reserve notes of the denomination of $1 may, as the Secretary directs, be printed by a method other than the intaglio process.".

SEC. 2. Section 5114 of title 31, United States Code, is amended by adding at the end thereof the following:

"(d) Notwithstanding subsection (a) of this section, the back side of United States currency of the denomination of $1 may be printed by any process the Secretary selects.".

II

98TH CONGRESS
1ST SESSION

S. 1374

To authorize the appropriation of funds for the improvement of facilities of the Bureau of the Mint.

IN THE SENATE OF THE UNITED STATES

MAY 25, 1983

Mr. GARN introduced the following bill; which was read twice and referred to the Committee on Banking, Housing, and Urban Affairs

---

A BILL

To authorize the appropriation of funds for the improvement of facilities of the Bureau of the Mint.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 5132 of title 31, United States Code, is amended by adding at the end thereof the following:

"(d) There are authorized to be appropriated not to exceed $3,070,000 for the improvement of the facilities of the Bureau of the Mint. Any sums appropriated under this subsection shall remain available until expended.".

22-559 O - 83 - 2

STATEMENT OF ANGELA BUCHANAN, TREASURER OF THE UNITED STATES, U.S. DEPARTMENT OF THE TREASURY

Ms. BUCHANAN. Thank you, Mr. Chairman for those kind words. I am pleased to be here today to present the administration's position on the proposed legislation, S. 1120, to authorize the printing of the backs of $1 notes by the offset method, and S. 1374, the Mint's requested authorization for appropriated funds for expansion and improvements.

First, Mr. Chairman, I would like to thank you for introducing both these bills at our request. We appreciate your keen interest in the operations of the Bureaus of Engraving and Printing and the Mint.

I would like at this time to introduce Robert J. Leuver, Director of the Bureau of Engraving and Printing, and Larry Rolufs, Deputy Director of the Bureau of the Mint.

As to S. 1120, the law requires that all U.S. currency be printed by the intaglio method. The proposed legislation would permit a single exception to that requirement by allowing the backs of $1 notes to be printed by other means. This proposal is consistent with our goal of printing currency as economically as possible without compromising its security. The U.S. Secret Service, which enforces our counterfeiting laws, endorses this proposal and I would like to enter into the record a copy of their letter of endorsement.

The Federal Reserve System, which issues U.S. currency, also has endorsed this proposal. I will briefly explain the background and benefits of this legislation.

INCREASED PRODUCTION AT LESS COST

The intaglio process involves printing from an engraved steel plate under high pressure which forces the paper into the engraved lines on the plate. This results in an extremely high-fidelity, fine-line document which, because of its visual excellence and unique three-dimensional feel, is most difficult to counterfeit. The offset process involves printing from a photograph-like plate by indirect means onto the paper. Although it can possess high fidelity, offset printing lacks the unique appearance and feel of intaglio. While the use of intaglio printing is recognized worldwide as the premier method of counterfeit deterrence, many European nations such as Austria, Belgium, Denmark, England, Finland, France, Italy, and Sweden currently produce bank notes in various denominations with an intaglio face and an offset back. For their small denomination bank notes, Belgium, France, Italy, and Sweden do not use intaglio printing on either side, but use the offset method for both sides.

During fiscal year 1983 the Federal Reserve System has requested that 4.6 billion notes be produced; $1 notes constitute about 50 percent of the currency to be produced. Because of their large volume, $1 notes are a natural center of focus for any economies in the production process.

We are now at the beginning of a rapid escalation of currency orders from the Federal Reserve System. Between 1982 and 1987 the yearly output of currency will grow from 4.1 billion to 6.6 billion notes, an increase of 61 percent. By comparison, the increase

in the previous 5 years was only 19 percent. This increase in demand is sparked by the need to improve the quality of the notes in circulation, particularly as they are increasingly used in automatic currency processing machines in banks and coin changers.

The Bureau of Engraving and Printing will be able to meet the present order for currency. With the scheduled acquisition of new intaglio equipment, the retention of old equipment scheduled for disposal, and the continuation of our high rates of overtime, the requirements for fiscal year 1984 and 1985, and perhaps even 1986, can be met.

Ultimately, however, our current production processes will fail to meet the demand without significant infusions of expensive machinery and personnel. An alternative to this program of long term extra effort and expense is a change in the way currency is printed.

When this proposed legislation is implemented, we estimate that the total manufacturing savings will be approximately $5.4 million per year, or 10.2 percent of our currency program. These figures were developed by comparing our actual expenses for the first 6 months of fiscal year 1983 annualized to what the figures would have been if the backs of the $1 notes were printed by the offset method.

The savings are in four major areas: One, direct labor; two, products used in printing; three, overtime; and four, note examination. The direct labor savings of $1.3 million are achieved by utilizing pressmen in lieu of plate printers at a salary difference of $3.17 per hour. Part of the savings accrue because offset presses run approximately 3½ times as fast as intaglio presses, and it will take fewer pressmen than plate printers to print the backs of $1 notes. The savings attributed to the products used in printing are approximately $1.5 million. These savings result from less expensive inks and plate materials and from the fact that no wiping paper is used by the offset presses. The largest single saving of $2.1 million would be achieved in the reduction of overtime. The printing section of the Bureau of Engraving and Printing have been operating 24 hours a day, 6 days a week, with an optional seventh day of work. Faced with a 61-percent increase in demand for currency over the next few years, I see no prospect of reducing overtime unless this legislation is passed. Another saving of approximately half a million dollars would be generated by a reduced requirement for examination of the notes since the quality of offset printing is more consistent than intaglio.

As to security, the $1 dollar note is not a counterfeiting threat due to its low value. Therefore, the Bureau of Engraving and Printing, U.S. Secret Service, and the Federal Reserve System believe there is no serious security threat in using nonintaglio printing of $1 note backs as long as the face of the note—where most identifiers and security features are located—remains intaglio. Use of the offset process on high value notes, where counterfeiting becomes a more practical threat, would be too much of a compromise of the note's intrinsic counterfeit deterrence. One dollar notes comprised about 0.4 percent (843) of all counterfeited notes passed during fiscal year 1981.

In summary, Mr. Chairman, we believe that this legislation is needed at this time. It will help us satisfy the huge increase in demand for currency, save several million dollars a year in manufacturing costs, and it does not compromise the security of our currency.

With respect to S. 1374, this is a separate appropriation request solely for the purpose of completing a special effort to upgrade the mint's facilities to provide additional coining capacity.

In an audit of the fiscal year 1977 budget, the General Accounting Office was asked to review the requirements for a new Denver Mint at a cost of $65 million and to suggest possible alternatives. GAO suggested options for increasing production in present facilities rather than construction of a new Denver Mint.

EXPAND AND IMPROVE DENVER MINT

The mint agreed with GAO and developed a plan to expand and improve existing facilities to meet 1985 Federal Reserve requirements of 22 billion coins, improve material flow, optimize utilization of available space, and provide healthier and safer working conditions for mint employees. The estimated cost of modifications at the Denver and Philadelphia Mints is $18 million.

To complete the expansion and improvement plan, $3.9 million was approved in fiscal year 1982 by Public Law 97-92 and Public Law 97-161; $5.2 million was approved in fiscal year 1983 by Public Law 97-276 and Public Law 97-377; $5.7 million was transferred from the "Construction of Facilities Fund" and the balance of $3.1 million is included in our fiscal year 1984 budget.

The construction at the Denver Mint will be accomplished in two phases. The first phase will involve construction of an expanded dock area for consolidating all material deliveries and coin shipments, improved roadway approaches and departures from the south dock; and a two-story building addition which will provide additional space for coinage materials storage and processing. These additions will allow removal of the three temporary buildings which are presently used for coin storage and materials storage. The second phase will include the relocation and installation of production equipment, installation of materials handling equipment, support facilities for increased coin production and necessary utilities systems.

Philadelphia Mint improvements will primarily consist of production equipment and automated materials handling systems which will be installed in the present mint building.

In fiscal year 1982, the mint awarded an interagency agreement and transferred $1.1 million to the General Services Administration to contract for the design and construction of improvements at the Denver Mint. The design contract was issued to a Denver firm. In addition, $8.9 million was recently transferred to the General Services Administration for phase I construction of the Denver Mint.

Upon completion of this multiyear program, the mint's capacity to produce coins during a regularly scheduled workweek of three eight-hour shifts, 5 days a week, will be increased to 22.5 billion

coins. At the same time the Mint will have provided a safer, more efficient working environment for its employees.

That completes my statement, Mr. Chairman, and I will be pleased to answer any questions you may have.

The CHAIRMAN. Thank you very much. As you well know, we have had a very disturbing experience these last few years with the Susan B. Anthony dollar and the $2 bill.

Do you think our citizens in this country will receive a different type of dollar bill with any more enthusiasm than they have those other two?

Ms. BUCHANAN. Mr. Chairman, I think in the case of the Susan B. Anthony as well as the $2 bill we were asking the American people to change their habits with respect to their currency. With respect to changing the dollar from intaglio to offset, I think a more comparable situation would be two things that have occurred during my tenure as Treasurer. One is a change of the copper penny to a zinc penny. We changed that composition, introduced it to the American people and there was no reaction from them whatsoever, negative or positive for that matter. There is a change in the feel, and there will be with the intaglio to offset, in the sense that when you handle a zinc penny as opposed to a copper penny, it is 20 percent lighter, approximately.

Another situation is this past year on our bills we have changed the ink from one of a solvent to a water wipe, and that is a change in the $1 bill, but you cannot discern it, and we obviously have not received any negative reactions from the public.

I think that the situation that we are looking at today is quite comparable to the two situations I just mentioned. So, in summary, Mr. Chairman, I expect no reaction from the public and I would be surprised if they could discern a difference in the bills.

The CHAIRMAN. You mentioned in your testimony actions you have taken to increase your capacity using the intaglio process, to take it through possibly fiscal 1986. Is it possible for you to increase that capacity in order to continue the present process without going to the offset?

Ms. BUCHANAN. There certainly are alternatives if we were not to get this bill passed. We could increase personnel, increase equipment, we could reduce the work that we now do for the Postal Service. However, there is no more efficient means to approach the problem that we are facing now for the demand for currency. This is the single most efficient means. The other means are not efficient, they will be throwing money toward a problem, basically, to solve it rather than to handle it in an efficient manner.

Mr. Chairman, we do have examples here that we would be glad to show you that are offset dollar bills versus the intaglio and see if you can discern the difference. In fact, we have examples of the American note that way and a recent note from England that was recently done, one in intaglio and one in offset, which we would be glad to submit for the record for anyone to review if they like.

The CHAIRMAN. We would like to see that when we finish the questioning.

Would the circulation life of the dollar bills be affected by this change?

GOOD QUALITY AND SECURITY WITH LESS OVERTIME

Ms. BUCHANAN. As I pointed out in the testimony, many European countries now have changed to an offset back and they have experienced absolutely no difference in the life of their currency. Our present $1 notes have an 18-month life, and we don't expect that to change at all.

Senator GARN. I have great trouble with the European sizes of notes—I have to carry three different size wallets to fit them in.

If this legislation does pass, how much time would be required before your actual printing would begin?

Ms. BUCHANAN. Although it only takes a couple of months to get the equipment running, it will take approximately 10 months for us to get the supplies. So we feel it would be 10 months after the date of the legislation being passed before we would actually be producing the offset back.

The CHAIRMAN. In your testimony you point out a significant area for cost savings would occur if S. 1120 is passed in the area of overtime payments. What have been the amounts of your overtime expenses in the last few years?

Ms. BUCHANAN. Mr. Chairman, our experience with overtime is, in summary, that we have approximately 50 percent of our plate printers making in excess of $61,000. The average salary for a plate printer is a little over $41,000. So we have almost 50 percent of them making in excess of $20,000 in overtime.

I would be glad to submit more detail for the record. We have broken it down so you can get a feeling for the top 12 individuals in plate printing, making salaries such as $84,000, $77,000, $73,000, where their average salary was approximately $41,000. So as you can see, there is an excessive sum being paid in overtime for the plate printers.

The CHAIRMAN. I think it would be important if we could place that in the record. However, I don't want it to be known in the Senate, after what we went through last week over a huge $9,000 raise. You may have a large number of Senators having to see if they can become printers.

So we will put it in the record, but we won't disclose it widely, so we don't upset the whole process.

If S. 1120 passes, how many plate printers would lose their jobs?

Ms. BUCHANAN. We feel quite strongly, Mr. Chairman, that due to the increase in demand for currency in the next few years that no plate printer will lose his job. What we are looking for here is reduction in overtime.

The CHAIRMAN. Just through attrition then?

Ms. BUCHANAN. Actually we expect to need the services of all of the plate printers we presently have employed. But with the offset back, we would reduce their overtime hopefully dramatically.

The CHAIRMAN. Maybe they could run for the Senate then. [Laughter.]

Do you see the possibility of using offset printing for currency other than $1 bills?

Ms. BUCHANAN. At this time the Secret Service does not encourage such a move. We defer entirely to the Secret Service on issues of security. They have no concern with going to offset for the $1

note, but they don't encourage any further use of offset at this time.

The CHAIRMAN. So they do support the change you are advocating of the $1 bill?

Ms. BUCHANAN. They do support it and have given me a letter to that effect, which I will be glad to submit for the record.

The CHAIRMAN. I would appreciate it if you would.

I have no additional questions. I appreciate very much your willingness to come today, and again I wish you luck in your new endeavors. Thank you.

Ms. BUCHANAN. Thank you very much, Mr. Chairman.

[The complete statement and documents submitted by Ms. Buchanan follow:]

TESTIMONY OF
THE HONORABLE ANGELA M. BUCHANAN
TREASURER OF THE UNITED STATES
BEFORE THE
SENATE COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
JUNE 22, 1983

Mr. Chairman, I am pleased to be here today to present the Administration's position on the proposed legislation, S.1120, to authorize the printing of backs of one dollar notes by the offset method and S.1374, the Mint's requested authorization for appropriated funds for expansion and improvements.

First, Mr. Chairman, I would like to thank you for introducing both these bills at our request. We appreciate your keen interest in the operations of the Bureaus of Engraving and Printing and the Mint.

S.1120, OFFSET PRINTING FOR CURRENCY

Currently, the law requires that all United States currency be printed by the intaglio method. The proposed legislation would permit a single exception to that requirement by allowing the backs of one dollar notes to be printed by other means. This proposal is consistent with our goal of printing currency as economically as possible without compromising its security. The U.S. Secret Service, which enforces our counterfeiting laws, endorses this proposal and I would like to enter into the record a copy of their letter of endorsement. The Federal Reserve System, which issues U.S. currency, also has endorsed this proposal. I will briefly explain the background and benefits of this legislation.

Background

The intaglio process involves printing from an engraved steel plate under high pressure which forces the paper into the engraved lines on the plate. This results in an extremely high fidelity, fine-line document which, because of its visual excellence and unique three dimensional feel, is most difficult to counterfeit. The offset process involves printing from a photograph-like plate by indirect means onto the paper. Although it can possess high fidelity, offset printing lacks the unique appearance and feel of intaglio. While the use of intaglio printing is recognized worldwide as the premier method of counterfeit deterrence, many European nations (Austria, Belgium, Denmark, England, Finland, France, Italy and Sweden) currently produce bank notes in various denominations with an intaglio face and an offset back. For their small denomination bank notes, Belgium, France, Italy and Sweden do not use intaglio printing on either side, but use the offset method for both sides.

During Fiscal Year 1983, the Federal Reserve System has requested that 4.6 billion notes be produced. One dollar notes constitute about 50% of the currency to be produced. Because of their large volume, one dollar notes are a natural center of focus for any economies in the production process.

We are now at the beginning of a rapid escalation of currency orders from the Federal Reserve System. Between 1982 and 1987, yearly output of currency will grow from 4.1 billion to 6.6 billion notes, an increase of 61%. By comparison, the increase in the previous five years was only 19%. This increase in demand is sparked by the need to improve the quality of the notes in circulation, particularly as they are increasingly used in automatic currency processing machines in banks and coin changers.

22-559 O - 83 - 3

The Bureau of Engraving and Printing will be able to meet the present order for currency. With the scheduled acquisition of new intaglio equipment, the retention of old equipment scheduled for disposal, and the continuation of our high rates of overtime, the requirements for Fiscal Year 1984 and 1985, and perhaps even 1986 can be met. Ultimately, however, our current production processes will fail to meet the demand without significant infusions of expensive machinery and personnel. An alternative to this program of long term extra effort and expense is a change in the way currency is printed.

Cost Benefit

When this proposed legislation is implemented, we estimate that the total manufacturing savings will be approximately $5.4 million per year, or 10.2% of our currency program. These figures were developed by comparing our actual expenses for the first six months of Fiscal Year 1983 (annualized) to what the figures would have been if the backs of the one dollar notes were printed by the offset method.

The savings are in four major areas: (1) direct labor, (2) products used in printing (3) overtime, and (4) note examination. The direct labor savings of $1.3 million are achieved by utilizing pressmen in lieu of plate printers at a salary difference of $3.17 per hour. Part of the savings accrue because offset presses run approximately three and a half times as fast as intaglio presses, and it will take fewer pressmen than plate printers to print the backs of the one dollar notes. The savings attributed to the products used in printing are approximately $1.5 million dollars.

These savings result from less expensive inks and plate materials and from the fact that no wiping paper is used by the offset presses. The largest single saving of $2.1 million would be achieved in the reduction of overtime. The printing sections of the Bureau of Engraving and Printing have been operating twenty-four hours, six days a week with an optional seventh day of work. Faced with a 61% increase in demand for currency over the next few years, I see no prospect of reducing overtime unless this legislation is passed. Another saving of approximately half a million dollars would be generated by a reduced requirement for examination of the notes since the quality of offset printing is more consistent than intaglio.

Security

The $1 note is not a counterfeiting threat due to its low value. Therefore, the Bureau of Engraving and Printing, U.S. Secret Service, and Federal Reserve System believe there is no serious security threat in using nonintaglio printing of $1 note backs as long as the face of the note -- where most identifiers and security features are located -- remains intaglio. Use of the offset process on high value notes, where counterfeiting becomes a more pratical threat, would be too much of a compromise of the note's intrinsic counterfeit deterrence. One dollar notes comprised about .4% (843) of all counterfeited notes passed during Fiscal Year 1981.

Summary

Mr. Chairman, we believe that this legislation is needed at this time. It will help us satisfy the huge increase in demand for currency, save several million dollars a year in manufacturing costs, and it does not compromise the security of our currency.

S.1374, MINT EXPANSION AND IMPROVEMENTS

S.1374 is a separate appropriation request solely for the purpose of completing a special effort to upgrade the Mint's facilities to provide additional coining capacity.

In an audit of the Fiscal Year 1977 budget, the General Accounting Office was asked to review the requirements for a new Denver Mint at a cost of $65 million and to suggest possible alternatives. The GAO suggested options for increasing production in present facilities rather than construction of a new Denver Mint.

The Mint agreed with the GAO and developed a plan to expand and improve existing facilities to meet 1985 Federal Reserve requirements of 22 billion coins, improve material flow, optimize utilization of available space, and provide healthier and safer working conditions for Mint employees. The estimated cost of modifications at the Denver and Philadelphia Mints is $18 million.

To complete the Expansion and Improvement Plan, $3.9 million was approved in FY 1982 by P.L. 97-92 and P.L. 97-161; $5.2 million was approved in FY 1983 by P.L. 97-276 and P.L. 97-377; $5.7 million was transferred from the "Construction of Facilities Fund" and the balance of $3.1 million is included in our FY 1984 budget.

The construction at the Denver Mint will be accomplished in two phases. The first phase will involve construction of an expanded dock area for consolidating all material deliveries and coin shipments, improved roadway approaches and departures from the south dock; and a two story building addition which will provide additonal space for coinage materials storage and processing. These additions will allow removal of the three (3) temporary buildings which are presently used for coin storage and materials storage. The second phase will include the relocation and installation of production equipment, installation of materials handling equipment, support facilities for increased coin production, and necessary utilities systems.

Philadelphia Mint improvements will primarily consist of production equipment and automated materials handling systems which will be installed in the present Mint building.

In FY 1982, the Mint awarded an interagency agreement and transferred $1.1 million to the General Services Administration to contract for the design and construction of improvements at the Denver Mint. The design contract was issued to a Denver firm. In addition, $8.9 million was recently transferred to the General Services Administration for Phase I construction of the Denver Mint.

Upon completion of this multi-year program the Mint's capacity to produce coin during a regularly scheduled work week of three eight-hour shifts, five days a week, will be increased to 22.5 billion coins. At the same time the Mint will have provided a safer, more efficient working environment for its employees.

This completes my prepared remarks and I will be pleased to answer any questions you may have.

@ @ @

DEPARTMENT OF THE TREASURY
UNITED STATES SECRET SERVICE

OFFICE OF THE DIRECTOR
April 11, 1983

MEMORANDUM

TO : Honorable Angela M. Buchanan
Treasurer of the United States
Department of the Treasury

THRU : John M. Walker, Jr.
Assistant Secretary
(Enforcement and Operations)

FROM : Joseph R. Carlon
Acting Assistant Director
Office of Investigations

SUBJECT : Offset Printing Proposal - $1 Federal Reserve Notes

A proposal by the Bureau of Engraving and Printing to produce the backs of $1 Federal Reserve Notes using the offset printing process was recently received in this office for comment.

The Secret Service is keenly aware of the efforts by BEP to stay abreast of the demand for U. S. currency while keeping the cost of production reasonable. It is our opinion that since such a minimal amount of $1 FRN's are being counterfeited today, the production of the backs of $1 FRN's by the offset method would not pose a significant enforcement problem to this Service. It should be understood, however, that this should apply only to $1 FRN's and not to other currency denominations.

If I can be of further assistance please do not hesitate to contact me.

Joseph R. Carlon

cc: Robert Leuver, Director
Bureau of Engraving and Printing

BUREAU OF ENGRAVING AND PRINTING
SALARY INFORMATION
PLATE PRINTERS - FY 82

-In fiscal year 1982 fifty-two (52) plate printers made more than $61,000

-The highest salary for a plate printer was $84,296 ($27,902 in overtime pay).

-Average salary for these 52 employees was $67,889.

-The following show the FY 82 earnings of selected individuals broken down by regular and overtime pay, overtime pay as a percentage, regular pay, and total annual pay:

EMPLOYEE	REGULAR PAY	OVERTIME	OVERTIME AS % OF REGULAR PAY	TOTAL
A	$45,249	$38,568	85.2 %	$83,818
B	$44,580	$33,086	74.0 %	$77,666
C	$39,350	$29,017	73.7 %	$68,780
D	$41,004	$29,843	72.8 %	$70,847
E	$45,249	$27,978	61.8 %	$73,227
F	$45,249	$25,465	56.0 %	$70,714
G	$45,249	$23,350	51.6 %	$68,599
H	$44,559	$22,291	50.0 %	$66,849
I	$56,393	$27,902	49.0 %	$84,296

- In FY 82 plate printers averaged 450 hours of overtime and $12,000 overtime pay.

- In FY 83 from October 1, 1982 to June 1, 1983, plate printers averaged 240 hours overtime and $7,250 overtime pay.

- The plate printers regular rate of pay is $20.02 per hour or $41,641 per year.

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

OFFICE OF THE STAFF DIRECTOR
FOR FEDERAL RESERVE BANK ACTIVITIES

March 17, 1983

Ms. Angela M. Buchanan
Treasurer of the United States
Office of the Secretary
1500 Pennsylvania Avenue, N.W.
Washington, D.C. 20220

Dear Bay:

This letter is in reference to the Bureau of Engraving and Printing's proposal to print the back of $1 notes using a method other than the intaglio printing process. Provided that the face of the $1 note continues to be printed using the intaglio process, we at the Federal Reserve fully support your pursual of the offset printing process for the backs of the $1 notes.

The Federal Reserve Banks have made a commitment to improve the fitness quality of the currency in circulation. This will be a multi-year project resulting in a continual increase of the new currency printing order for several fiscal years. Concern has been raised as to the BEP's capability in meeting the needs for increased production during this quality improvement program.

As we understand it, offset printing on $1 note backs would increase the printing capacity of the BEP and also would reduce costs considerably. For these reasons, we see this as a positive step and would encourage a move in this direction.

On the issue of counterfeit deterrence, we would defer to the Secret Service on the security aspects of the offset printing process. However, since the one dollar notes are the least counterfeited denomination, we do not forsee any problems in this regard.

Again, we offer all our cooperation in pursuing this proposal and applaud the BEP's efforts in attempting to increase production capacity while reducing printing costs.

Sincerely yours,

Theodore E. Allison

Theodore E. Allison
Staff Director

The CHAIRMAN. Next I would like to invite Theodore E. Allison, Staff Director for Federal Reserve Bank Activities, Board of Governors of the Federal Reserve System.

STATEMENT OF THEODORE E. ALLISON, STAFF DIRECTOR FOR FEDERAL RESERVE BANK ACTIVITIES, BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Mr. ALLISON. Mr. Chairman, the Federal Reserve's support for this proposal is grounded on the very favorable impact it would have on the BEP's capacity to produce currency and on its cost of printing $1 notes, which account for about half of the total notes that the Federal Reserve needs printed each year. We concur that there will be no appreciable risk to security from this change as the incidence of counterfeit $1 notes is extremely small, and the front of the note will continue to be printed by the intaglio process. Moreover, we are assured that there will be no degradation of the quality of the printing—that is, of its clarity, consistency, and overall visual appearance—as a result of the change to offset. I believe your inspection of the note the Treasurer presented here will bear that out.

The principal issue behind this proposal is the need to increase the BEP's production capacity in order to serve the currency requirements of the public. To meet these requirements, the Federal Reserve must have new notes in sufficient quantity to establish and maintain a high quality of notes in circulation and to allow for the increase in circulating currency related to economic growth. As detailed in the attached table, the Federal Reserve System during the last 10 years has increased its orders for new notes at an average annual rate of about 5 percent. I might add that has been effectively the limit of the BEP's capacity. For the next 5 years, however, we project that our needs will grow at an average annual rate of about 10 percent, from just over 4 billion notes in 1982 to about 6½ billion in 1987.

The main factor in the sizable increase in our projected needs for new notes is our commitment to improving the quality of the Nation's currency. Each year, the replacement of unfit notes accounts for the bulk of the Federal Reserve's new currency requirements from the BEP, and our needs for notes would grow even if our objectives were only to maintain the current quality of our currency. To achieve the improvement in quality required by the public, caused in large measure by the growing use of machines that handle currency, we will need a greater number of new notes to replace the higher number of unfit notes that will be removed from circulation.

By way of background, let me turn briefly to the manner in which unfit notes are relaced by new currency. The public's needs for currency are met by withdrawals from accounts at depository institutions which, in turn, replenish their supplies of vault cash by drawing down their reserve balances at Reserve banks. Likewise, depository institutions dispose of excess currency by depositing it at Reserve banks for credit to their reserve accounts. Thus, there is a continuous flow of currency into and out of the Reserve

banks, in the process of which notes that are not fit for further circulation are removed and destroyed, and new notes are issued.

During the 1970's, the volume of currency handled by the Federal Reserve grew so rapidly that the practice of manual, note-by-note inspection for fitness was replaced by inspection of 100-note packages, the typical size unit deposited at the Reserve banks. While that change enabled the Reserve banks to improve processing productivity, it resulted in a decline in currency quality as marginal quality notes were recirculated. The decline in the overall quality of the currency occurred at a time when the need for higher quality currency—for ATM's, fare machines, bill changers, and vending machines—was growing. The Federal Reserve set about to restore, and then further improve, quality by developing and installing new currency processing equipment and procedures that would allow us to return to note-by-note inspection for fitness. The last of these new machines will be installed later this year, and we are now in fact inspecting the major portion of the currency again on a note-by-note basis. These processors, together with a comprehensive quality measurement and monitoring program, have already resulted in a noticeable—though not yet sufficient—improvement in currency quality.

In conclusion, the Federal Reserve is committed to a major program of improving and maintaining the appearance and quality of our Nation's currency, particularly in view of the greater usage of machines that dispense and accept notes. With sufficient production capacity at the BEP to provide for consistently high quality currency, society will be able to take full advantage of the speed, convenience, and efficiencies that are afforded by the use of such machines. The Federal Reserve believes that the proposed legislation, and the resulting change to offset printing for the backs of $1 notes, is an appropriate response to the need for more currency production capacity, and we urge your passage of it.

[The complete statement follows:]

Statement by

Theodore E. Allison
Staff Director
for Federal Reserve Bank Activities
Board of Governors of the Federal Reserve System

Thank you for the opportunity to appear today to convey the Federal Reserve's endorsement of a bill that would authorize the Bureau of Engraving and Printing to print the back of the one-dollar note by the offset process.

The Federal Reserve's support for this proposal is grounded on the very favorable impact it would have both on the BEP's capacity to produce currency and on its cost of printing one-dollar notes, which account for about half of the total notes that the Federal Reserve needs printed each year. We concur that there will be no appreciable risk to security from this change as the incidence of counterfeit one-dollar notes is extremely small, and the front of the note will continue to be printed by the intaglio process. Moreover, we are assured that there will be no degradation of the quality of the printing -- that is, of its clarity, consistency, and overall visual appearance -- as a result of the change to offset.

The principal issue behind this proposal is the need to increase the BEP's production capacity in order to serve the currency requirements of the public. To meet these requirements, the Federal Reserve must have new notes in sufficient quantity to establish and maintain a high quality of notes in circulation and to allow for the increase in circulating currency related to economic growth. As detailed in the attached table, the Federal Reserve System during the last 10 years has increased its orders for new notes at an average annual rate of about 5 percent. For the next 5 years, however, we project that our needs will grow at an average annual rate of about 10 percent, from just over 4 billion notes (in 1982) to about 6-1/2 billion in 1987).

The main factor in the sizeable increase in our projected needs for new notes is our commitment to improving the quality of the nation's currency. Each year, the replacement of unfit notes accounts for the bulk of the Federal Reserve's new currency requirements from the BEP, and our needs for notes would grow even if our objective were only to maintain the current quality of our currency. To achieve the improvement in quality required by the public, caused in large measure by the growing use of machines that handle currency, we will we need a greater number of new notes to replace the higher number of unfit notes that will be removed from circulation.

By way of background, let me turn briefly to the manner in which unfit notes are replaced by new currency. The public's needs for currency are met by withdrawals from accounts at depository institutions which, in turn, replenish their supplies of vault cash by drawing down their reserve balances at Reserve Banks. Likewise, depository institutions dispose of excess currency by depositing it at Reserve Banks for credit to their reserve accounts. Thus there is a continuous flow of currency into and out of the Reserve Banks, in the process of which notes that are not fit for further circulation are removed and destroyed, and new notes are issued.

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machines -- was growing. The Federal Reserve set about to restore, and then further improve, quality by developing and installing new currency processing equipment and procedures that would allow us to return to note-by-note inspection for fitness. The last of these new machines will be installed later this year. These processors, together with a comprehensive quality measurement and monitoring program, have already resulted in a noticeable -- though not yet sufficient -- improvement in currency quality.

In conclusion, the Federal Reserve is committed to a major program of improving and maintaining the appearance and quality of our nation's currency, particularly in view of the greater usage of machines that dispense and accept notes. With sufficient production capacity at the BEP to provide for consistently high quality currency, society will be able to take full advantage of the speed, convenience, and efficiencies that are afforded by the use of such machines. The Federal Reserve believes that the proposed legislation, and the resulting change to offset printing for the backs of one-dollar notes, is an appropriate response to the need for more currency production capacity, and we urge your passage of it.

ATTACHMENT

PRINTING ORDERS FOR FEDERAL RESERVE NOTES
Fiscal Years, 1970-1987

Fiscal Year	Total Number of Notes Ordered (millions)	One-dollar Notes	
		Number Ordered (millions)	Percent of Total
Actual			
1970	2,663	1,471	55.2
1971	2,746	1,397	50.9
1972	3,027	1,638	54.1
1973	3,147	1,773	56.3
1974[1/]	2,324	1,495	64.3
1975	2,824	1,665	59.0
1976	2,903	1,695	58.4
1977[2/]	3,726	2,096	56.3
1978	3,437	2,034	59.2
1979	3,517	1,905	54.2
1980	3,985	2,182	54.8
1981	4,083	2,081	51.0
1982	4,242	2,180	51.4
1983	4,579	2,423	52.9
Projected			
1984	5,400	2,808	52.0
1985	6,000	3,120	52.0
1986	6,300	3,276	52.0
1987	6,600	3,432	52.0

1/ Printing order reduced in order to allow for the production of gas rationing coupons.

2/ 15-month period; includes transition quarter at the change in the close of the fiscal year from June to September.

The CHAIRMAN. Thank you very much, Mr. Allison.

Are you aware of any problems that have developed in other countries as a result of going to the offset printing method?

Mr. ALLISON. I'm not aware of any, Mr. Chairman. It's fairly common for a low denomination note to be printed in this manner and it's apparently successful.

The CHAIRMAN. One of the witnesses argues that machines do not dispense $1 bills; they only dispense larger denominations, while the demand for newly printed currency may rise rapidly, this witness argues that the need for $1 bills is not apt to keep up.

Would you comment on that statement?

Mr. ALLISON. I would just say that, in fact, the proportion of the new note printing order accounted for by $1's has been fairly stable. It's generally been in the neighborhood between 50 and 55 percent. We project it to stay in that neighborhood, and that, in fact, since about 50 percent of the order is accounted for by $1's, there really is an appreciable impact on both capacity and cost.

The CHAIRMAN. I would assume a lot of the larger bills have had less usage as a result of credit cards. People used to carry a great deal more cash and I would assume that larger denominations—Mastercharge and VISA—is that a correct assumption, that use of credit cards has cut down the use of some of the larger bills?

Mr. ALLISON. I'm sure that it has. Nevertheless, the public's demand for larger denomination currency has in fact been rising, Mr. Chairman. In terms of numbers of transactions, those under $10 account for about 85 percent of all transactions and are accomplished almost entirely with cash. The remaining 15 percent of transactions, however—those over $10—represent about 90 percent of dollar value, and about three-fourths of these are handled by check or credit card, or in some other way. So transactions purposes that transition away from currency has taken place. But currency also serves a certain store of value purpose, and there has been a rather sharp increase over the last few years in the public's demand for very large denomination currency. Particularly $100 notes.

The CHAIRMAN. Does the Fed have any opinion on whether the change in the $1 bills would have any impact on counterfeiting?

Mr. ALLISON. We don't believe that it would. The quality of the printing would be very high. As Treasurer Buchanan indicated, in fact, the change would probably not be perceptible to the public.

The CHAIRMAN. I was just looking at them, with, of course, with an untrained eye, but it's difficult to see a difference. I suppose if you examined it closely with a magnifying glass you could. But in looking at them just a minute ago, it seems to be very little difference.

As far as the counterfeiting, I'm not aware of any great extent of counterfeiting even when a dollar was worth something, and when I was a kid my dad gave me a whole dollar bill. I thought I had the whole world by the tail, and yet I'm not aware that they were counterfeiting them in those days.

Mr. ALLISON. As I recall, far less than 1 percent of the counterfeit notes that come to the attention of the Secret Service are $1 notes.

The CHAIRMAN. Well, they're good for paying sales tax on your purchases.

Thank you very much. I have no additional questions.

Next I'd like to invite to the witness table a panel composed of Mr. John Meese, national coordinator, Government Employees Department, International Association of Machinists and Aerospace Workers; and Robert A. Vass, president, Washington Plate Printers, Die Stampers and Engravers Union, Local No. 2.

Is Mr. Vass here? Please come up. Mr. Meese, would you like to begin.

STATEMENT OF JOHN F. MEESE, NATIONAL COORDINATOR OF THE GOVERNMENT EMPLOYEES DEPARTMENT, INTERNATIONAL ASSOCIATION OF MACHINISTS AND AEROSPACE WORKERS, AFL-CIO

Mr. MEESE. Thank you, Mr. Chairman.

[The complete statement follows:]

REMARKS BY JOHN F. MEESE

NATIONAL COORDINATOR

GOVERNMENT EMPLOYEES DEPARTMENT

INTERNATIONAL ASSOCIATION OF MACHINISTS
AND AEROSPACE WORKERS

Mr. Chairman, members of the Committee, my name is John F. Meese. I am National Coordinator of the Government Employees Department of the International Association of Machinists and Aerospace Workers, AFL-CIO. I want to thank you for giving me this opportunity to provide you with our views on Senate Bill 1120.

The Machinists Union is an industrial union representing employees in some 300 industries as well as in many agencies of the Federal Government. Two of our Federal local unions represent employees at the Bureau of Engraving and Printing. These two Machinists locals represent more than one-half of all non-supervisory, non-management employees at the Bureau. However, I would like to note that in addition to our own membership I am also authorized to speak here today for local unions affiliated with seven other national and international unions. These include the AFGE, the Painters, the Carpenters, the Typographical Union, Graphic Arts, the Printers, and the IBEW. Like the Machinists these other organizations representing workers at the Bureau of Engraving and Printing urge the enactment of Senate Bill 1120.

This bill would authorize the Secretary of the Treasury to print the back side of one dollar Federal Reserve notes by methods other than the intaglio process. This proposal is not new. Bills to permit the Bureau of Engraving and Printing to use a process other than intaglio have been introduced in the past in the House of Representatives. To this point our organization has never taken a position on such proposals. That is because our members did not foresee any significant impact on their jobs or working conditions one way or the other. But times and conditions change and we are now here to suggest the need for adopting methods of engraving and printing better suited to meet those changes.

The need for new methods has been created by a steady increase in production requirements for one dollar bills. This year, for example, the Bureau of Engraving and Printing will produce 4.5 billion notes. By 1987 the demand for Federal Reserve notes will increase almost 50% from the current 4.5 billion to more than 6.5 billion. The present level of production already requires premium pay overtime not only for printers but the maintenance crafts and non-craft support employees as well. Dispite utilization of new equipment purchased by the Bureau it seems likely that even more overtime, at premium rates, will be required in the future unless the change of process proposed by Senate Bill 1120 is authorized.

I also want to stress the even more significant potential affect on the postage stamps program at the Bureau. The currency and postage stamp programs comprise more than 95% of the Bureau's production work load. The combination of the two programs permits scheduling work in a manner which assures maximum productivity and efficiency for both programs within delivery date requirements. If the Bureau must continue to print currency of the one dollar denomination on both sides using the intaglio method its ability to respond to orders from the Postal Service will be reduced. In all likelihood the Postal Service would eventually be forced to look elsewhere for the printing of postage stamps. Such a loss of the postage stamp production would, of course, directly affect the workers I am here to represent.

Every study of which our organization is aware, including that conducted by Arthur Young at the request of the Postal Service, clearly indicates that production of postage stamps by a printer other than the Bureau of Engraving and Printing will result in substantial cost increases. Such increased costs will, of course, be borne by the public. Obviously, continuation of postage

stamp production by the Bureau of Engraving and Printing serves the best interest of the Department of Treasury, the Bureau of Engraving and Printing employees, but most important of all, the taxpayers.

If Congress continues to require the intaglio process in printing the backs of Federal Reserve notes it will, in effect, be requiring the purchase of additional intaglio presses. As production requirements increase, more and more personnel and equipment will have to be assigned to the currency program. As I have suggested this will eventually mean the end of postage stamp production at the Bureau of Engraving and Printing and the loss of as many as 1,000 jobs. Even then, it is unlikely the current schedule of a six day, and sometimes even seven day, work week will be enough to meet the production quotas for printing the added amounts of currency that will be needed. Ironically, while some employees would be terminated, others would be required to work beyond the 40-hour work week with premium overtime rates. All these factors constitute pyramiding costs which could be avoided by passage of Senate Bill 1120.

According to the best projected estimates, one-half of all currency to be printed will be notes of the one dollar denomination. Thus, printing the back sides of one dollar notes by the web-fed offset method would reduce total intaglio press requirements by 25%. The offset method is approximately three and one-half times faster than the intaglio method. This means that one fourth of all currency production can be done at a rate three and one-half times faster than it is now.

For those that might be concerned about security, the Board of Governors of the Federal Reserve System has advised that one dollar notes are the least counterfeited denomination and they do not foresee any additional problems with the proposed change of process.

According to the Bureau of Engraving and Printing the change of process will substantially affect neither the quality nor the life expectancy of the notes. While the change of process may bring some unforeseen problems they will more than likely be offset by a reduction in rate of spoilage.

A number of other countries have used both the intaglio and offset methods to produce their currency. Some use the offset on backs of notes of lower denominations only while some use it on all currency. In either case experience indicates no special or significant problems with counterfeiting. As I noted in the beginning, Senate Bill 1120 would limit the offset method of printing of bills to the back side of the one dollar bill.

Mr. Chairman, it is human nature to be apprehensive about any kind of change. Normally our response to proposals to change methods of production reflect that apprehension. More often than not we tend to tell our employers, "If it ain't broke, don't try to fix it." But in this case we can see a serious problem in the offing if the proposed changes are not made. We can see many good reasons for supporting Senate Bill 1120, but quite frankly, try as we may, we can see no good reason that it should not be passed. We have, in fact, checked with the Director of the Bureau of Engraving and Printing and he assures us that passage will not result in reduction of jobs nor reclassification of employees. The projected work load in the combined currency and postage stamp program will continue to support the present number and classifications of employees at the Bureau. To sum it up, passage of Senate Bill 1120 will protect the jobs of employees at the Bureau of Engraving and Printing. Obviously, that is our interest as a union but more important from the Committee's and Congress' point of view, enactment of Senate Bill 1120 will increase the productivity of the currency program and assure continuation of the postage stamp program at substantial savings to the United States Postal Service.

Mr. Chairman, I again thank you for this opportunity to present our views on Senate Bill 1120.

The CHAIRMAN. Thank you, Mr. Meese.
Mr. Vass.

STATEMENT OF ROBERT A. VASS, PRESIDENT, PLATE PRINTERS UNION; AND ALSO ON BEHALF OF THE INTERNATIONAL UNION OF PLATE PRINTERS, DIE STAMPERS & ENGRAVERS UNION OF NORTH AMERICA, AFL-CIO

Mr. VASS. Mr. Chairman, my name is Robert A. Vass and I have served as the president of the Washington Plate Printers Union for the past 4 years. I am speaking on behalf of the entire membership of our local union as well as the International Union of Plate Printers, Die Stampers & Engravers Union of North America, AFL-CIO.

I greatly appreciate the opportunity to address this committee. At this time I would like to introduce Daniel Bradley, vice president of the Washington Plate Printers; Cornelius Healy, president of our international; and Lawrence J. Sherman, counsel to the Washington Plate Printers Union.

I also wish to request permission to submit to the committee the statements of the Washington Plate Printers Union; Joseph J. Kilgallon, president of Ruttenberg, Friedman, Kilgallon & Associates; and Angelo LoVecchio, legislative representative of the international. Please include these statements in the formal record of this hearing.

The CHAIRMAN. We would be happy to include those in the record.

Mr. VASS. Thank you.

Finally, I wish to request that the record be kept open for at least 5 weeks to: First, enable other unions at the Bureau to voice their support for our position; and second, enable our local or international to submit additional information, if necessary, to the committee.

Since our formal remarks are quite lengthy, I shall summarize only the most important points in my testimony today. At the outset, I take this opportunity to urge this committee and the Congress of the United States to refrain from enacting S. 1120.

GENERAL PUBLIC ACCEPTANCE OF "CHEAP" CURRENCY

The general public is very comfortable and secure having U.S. currency printed using the intaglio process. It has confidence in a currency which has not been altered substantially in many years. Conversely, the public record is quite clear that the American people will not accept a change which appears to undermine the value of our currency.

We don't have to look back very far in history to discover aborted attempts to save costs in the production of money. The drive to substitute the $2 bill for extensive use of the $1 bill and the introduction of the Susan B. Anthony dollar coin were dramatic failures. Instead of saving money these experiments wasted millions of dollars. Even today, it costs money to store these unused bills and coins.

This proposed legislation too would substitute a cheaper bill for the existing dollar. Based on prior experience, it appears the gener-

al public does not want its currency tinkered with. There is no evidence the public's attitude has changed since it refrained from accepting the Susan B. Anthony dollar coin.

In view of the uncertainty with which the general public will greet a change in the makeup of the dollar bill, is there a compelling need to print the back of the $1 note using the offset process? The answer to this question is no. The demand for currency can be met for the foreseeable future, while continuing to use the intaglio process for printing both sides of all currency.

In the material that the Bureau of Engraving and Printing has prepared in support of S. 1120, it acknowledges that current BEP currency production capacity is 5.2 billion notes per year. However, the Bureau fails to discuss what its capacity will be by the end of this fiscal year and in fiscal year 1984. In fact, the Bureau has already purchased four new I–8 intaglio presses which will be delivered and installed before the end of the summer.

The production capacity of the four I–8 presses is 20 percent greater than the presses they replace and has a lower spoilage rate as well. The four new I–8 presses represent one-third of the average number of presses, 12, which operate per shift, so that the total production capacity will be increased by 6.7 percent. The current BEP currency production capacity of 5.2 billion notes will be increased to 5.55 billion within a year. I wish to emphasize that this will be accomplished with no net increase in equipment and no increase in manpower.

The projected demand for currency is only 5.4 billion notes in fiscal year 1984, well below the expected capacity of 5.55 billion notes which is readily achievable by the end of fiscal year 1984. However, in the spring of 1984, 11 plate printer apprentices will be qualified to operate the presses. Working with journeymen plate printers, they will be able to put back into operation two presses on each of the three shifts. This means that the fiscal year 1984 production capacity will be much greater than 5.55 billion notes. Further, in fiscal year 1985, an additional seven plate printer apprentices will be available to put an additional press into operation. This will allow BEP to attain the projected demand for fiscal year 1985 of 6 billion notes.

A steady program of phasing in I–8 presses in fiscal year 1986 and fiscal year 1987 can be met without any increase in manpower while still minimizing the need for overtime.

In addition, the Bureau has indicated that by the end of fiscal year 1987 it expects to have in operation a web-fed intaglio press. It will print the backs and faces both at the same time by the intaglio process. Two more such systems are expected to be delivered by fiscal year 1990. This equipment will obviously increase production capacity well beyond 7.5 billion notes annually and, thereby, meet any anticipated currency demand while maintaining the intaglio process.

The improvements in production and cost-savings, which will follow the introduction of the four new I–8 intaglio presses can be discerned by examining the experience since the last two I–8 presses were put into operation. First, the Bureau no longer requires plate printers to work overtime on Saturdays and Sundays. The overtime work is now handled on a voluntary basis. Second,

the currency production is well ahead of schedule. Third, the cost of currency production has dropped markedly. In its report in support of S. 1120, BEP originally showed that in fiscal year 1982 the cost of printing 1,000 notes was $12.12. For the first 6 months of fiscal year 1983, the cost had dropped to $11.51 per 1,000 notes.

These savings are very significant indeed. The projected 4.6 billion notes to be produced in fiscal year 1983 will cost $2,806,000 less than would have been the cost had there been no improvements over fiscal year 1982. Each month improvements are made, so the savings for all of fiscal year 1983 will be greater than those shown based on the performance for the first 6 months of the fiscal year.

COST SAVINGS SUPPOSEDLY TO BE DERIVED FROM THE OFFSET BACK

The BEP contends that the savings in making the switch will amount to $5.4 million. Since we were not furnished the underlying data and work sheets supporting BEP's estimates of savings, we have experienced some difficulty analyzing them. Nevertheless, some of these estimates are so clearly wrong that all of the claimed cost savings are suspect.

The biggest saving, $1.6 million, is expected to be derived from reducing or eliminating overtime. Once the four new I-8 intaglio presses are in use, overtime will be eliminated. Therefore, there won't be any overtime savings to be gained by moving to offset printing.

There are other mythical savings claimed by BEP. Currently the I-8's print two-thirds of the $1 backs. Once the four new I-8 presses become operational, 100 percent of the $1 backs will be printed by these presses. The I-8 press does not require wiping paper. Therefore, the alleged savings of $321,000 in wiping paper is totally fictitious.

The BEP claims there will be an annual savings of $29,000 in plates. This calculation appears to be based on the experience of the older, paper-wipe presses. These presses average 250,000 sheets of currency per plate. The I-8 intaglio presses are much more efficient. They have averaged 1,149,226 sheets per plate. Thus, the I-8 presses get 4.6 times as many sheets of currency from each plate as do the older presses.

As a result, the cost savings on plates, at best, would be a little over $6,000, not the $29,000 estimated by BEP.

The Bureau assumes that spoilage using the offset process will be the same as for intaglio printing. There is no basis for this assumption. This false assumption is very important. According to the Director of the BEP, each percentage point of spoilage costs the Bureau $1 million.

According to internal BEP records, the actual spoilage on the I-8 presses printing the backs of $1 bills is between 2 and 3 percent, which we have documented papers here to show this—not 8 percent. This committee is being asked to accept on faith that the spoilage rate for the offset presses when printing dollar backs will also be between 2 and 3 percent, but the Bureau has overestimated existing spoilage costs by $2 to $3 million.

In any case, the downtime caused by spoilage will be much greater on the offset web-fed press than for the sheet-fed intaglio press.

For example, if a sheet is off register and causes the press to stop, the sheet can be pulled out and the press restarted in 30 seconds. On the other hand, a web break will require 10 to 25 minutes to rebuild the web. The broken web must be pulled from the press, alined and spliced. The press must then be restarted and brought up to proper speed for registration and printing purposes. This process is comparable to repairing film torn by a movie projector.

In addition to losing time, the offset press may lose 100 to 300 feet of expensive currency paper on such a break. Yet BEP assumes that there is no difference in the cost of paper between the two processes.

In making wage comparisons between offset pressmen and plate printers, the Bureau makes still another error which inflates the alleged savings. It used an hourly wage rate of $16.85 for offset pressmen. This may be accurate for offset printers who operate sheet-fed presses, but the Bureau plans to use web-fed offset presses. The journeymen offset web pressmen at the Government Printing Office are currently paid $17.79 per hour. This is the rate which would have to apply at BEP as well, not $16.85.

In short, the Bureau's estimates of cost savings are not only unsubstantiated by documentation but their calculations are saturated with gross errors—all of which tend to inflate the alleged savings.

We are aware this committee recently asked the General Accounting Office to analyze the estimates of cost savings. We are also aware the GAO investigators were not given adequate time to conduct a satisfactory study. We believe a thorough study should be undertaken. The risk is too great to rely on a rush job.

Based on the information made available by BEP, the alleged cost savings must be considered excessively inaccurate and totally unreliable. The potential savings from shifting to offset printing for the back side of the $1 bill is only marginal at best. They certainly don't warrant the risk of public rejection of the "cheaper" dollar.

THE BEP'S THREAT TO CONTRACT OUT THE PRINTING OF POSTAGE STAMPS

Bureau management has coerced a number of local union presidents into signing statements indicating their support of S. 1120. Their support is not based on the merits of the legislation but rather reflects their fear that their membership will lose jobs if the legislation does not pass.

They have been told that if the $1 bill continues to be printed using solely the intaglio process, more plate printers will need to be hired. Since the Bureau has a personnel ceiling, they were informed the new plate printer positions would be at the expense of their membership. They would suffer layoffs or RIF's.

They also have been told plate printers would need to be shifted from postage stamp production to currency production. The postage stamp program would then be put out for bid to private contractors. Their membership, whose work is related to postage stamp production, would thus be subject to layoffs or RIF's.

This is a scare tactic of the worst kind. It is totally unnecessary and inappropriate.

As pointed out earlier in this statement, the currency production capacity of the Bureau will far exceed the demand for currency notes projected through fiscal year 1987 if the Bureau carries out its announced plans. The foreseeable demand can be met with the same number of plate printers that are currently on the payroll. And it can be done by eliminating or minimizing the need for overtime.

If the dollar bill continues to be printed on both sides using the intaglio process, there will be absolutely no need to hire additional plate printers or to shift them from the postage program to currency production. There will be no need to lay off or RIF other Bureau employees.

In recent testimony before the House Committee on Appropriations, both Robert Leuver, the Director of the Bureau of Engraving and Printing; and Ms. Cora Beebe, Assistant Secretary of Administration, Department of the Treasury, testified that two recent studies have confirmed that it is cost effective to have the Bureau produce the majority of stamps.

Given the fact that Treasury and BEP management agree that it is more cost effective to print postage stamps in the Bureau and that extensive contracting out would be disruptive to the current ordering and distribution system, why is Bureau management now making such a threat?

In summary, authorizing BEP to print the back side of the $1 bill using the offset process is both unnecessary and unwise because:

First, the general public is not apt to accept the new currency with the same degree of confidence and security that has been the case with the current $1 bill. The recent experiences with the $2 bill and the Susan B. Anthony dollar coin suggest the American people would not welcome any tampering with their currency.

Second, there is no need to experiment with the offset back. With the four new I–8 presses which will become operational shortly and other planned innovations, Federal Reserve Board's projected demand for currency through fiscal year 1987 can be easily met with current manpower and without the use of overtime.

Third, the alleged cost savings made by the Bureau are full of serious errors. At best, the cost savings appear to be minimal.

Fourth, the continued use of intaglio printing on both sides of the $1 bill will not cause BEP to hire new plate printers and lay off other workers, nor will it force the Bureau to have the Postal Service put more stamps out for contract bid. Two studies have concluded such a proposal is not cost effective.

In conclusion, I wish to thank the committee for the opportunity to present this testimony. If you have any questions, I will be pleased to answer them at this time.

[The complete statements of Mr. Vass, Mr. Kilgallon, and Mr. LoVecchio follow:]

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LOCAL NO. 2
INTERNATIONAL PLATE PRINTERS
DIE STAMPERS AND ENGRAVERS UNION
OF NORTH AMERICA

AFFILIATED WITH
A.F.L. - C.I.O.
THE TRADES AND LABOR CONGRESS
OF CANADA

Washington Plate Printers Union

Statement of the Washington
Plate Printers Union, Local No. 2, AFL-CIO
For Presentation to the Senate Banking, Housing
and Urban Affairs Committee

June 22, 1983

Mr. Chairman and Members of the Committee:

This statement is submitted on behalf of the Washington Plate Printers Union Local No. 2, AFL-CIO. All of our members have served lengthy apprenticeships to become journeymen plate printers and periodically update their skills to keep abreast of the newest developments in intaglio printing. We are a progressive union and are proud of our record of working closely with management at the Bureau of Engraving & Printing in achieving mutual goals.

Over the past three years, we have worked with Bureau management to increase significantly the annual production of currency and stamps. In Fiscal Year 1982, we met the Federal Reserve Board currency requirement for the first time in the recent history of the Bureau. Not only are we exceeding these requirements by a wide margin in the current fiscal year, but our efforts have enabled the Bureau to eliminate mandatory weekend overtime.

With these preliminary remarks in mind, I wish to take this opportunity to implore this Committee and the Congress of the United States to refrain from enacting the pending offset legislation. This legislation is not in the public interest. No substantial production gains or cost-savings will result even in the short run. Circulation of inferior currency, with the attendant dangers of increased counterfeiting and loss of prestige in world currency markets, will also jeopardize our economic well-being.

NO SIGNIFICANT COST SAVING OR EFFICIENCY WILL BE ACCOMPLISHED

As already noted, the Bureau has increased its production of currency and stamps over the past three years. As part of this effort, the Bureau has recruited and trained apprentices and other skilled craftsmen known as intermediate plate printers. The Bureau has boosted production recently by placing into operation high-speed water-wipe intaglio printing equipment. With four more of these highly efficient presses scheduled to be installed in the near future, currency production will increase even more dramatically.

These and other efforts will enable the Bureau to exceed projected production requirements in the foreseeable future. The number of journeymen plate printers will also increase, assuming that the Bureau continues its highly successful apprenticeship program. On the other hand, no real savings will be achieved by the Bureau under this legislation. This is so because the use of offset printing is neither foolproof nor likely to result in

long-run savings for the reasons explained in our consultant's report.*/

The reasons advanced by those advocating this legislation are so weak that the motivation behind this effort must be called into question. At the very best, the legislation constitutes a token effort to achieve short-term savings which upon further analysis are really non-existent in nature. At worst, it is part of a cynical effort to take advantage of public outrage over the skyrocketing increase in the annual budget deficit for which the cost of printing currency is in no way responsible. These costs are paid by the Federal Reserve Board from revenues generated by its own operations. Since Congress does not appropriate any money whatsoever to cover the cost of printing currency, it necessarily follows that these costs do not increase the federal deficit.

PASSAGE OF THE OFFSET LEGISLATION

IS NOT IN THE PUBLIC INTEREST

The record before the Committee makes it plain that neither the reasons nor documentation advanced by advocates of this legislation can withstand even the most limited scrutiny. The cost-savings contained in the data are unrealistic. By the same token, the inefficiencies and dangers inherent in the use of

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*/ These matters are discussed in greater detail in a report prepared at the Union's direction by the economic consulting firm of Ruttenberg, Friedman, Kilgallon and Associates. I urge the Committee to read carefully this report, a copy of which is attached to my testimony. Due to a scheduling conflict, Mr. Kilgallon was unable to appear here today, although he would welcome the opportunity to do so at a later date.

token, the inefficiencies and dangers inherent in the use of offset printing in the security field are ignored altogether.

As skilled craftsmen required to examine closely the currency that we produce, plate printers can readily identify counterfeit items. However, recognition of counterfeit currency is not so obvious to tellers in banks or to clerks in department stores. Use of offset printing -- even for the backs of $1 bills -- increases the likelihood of counterfeiting. All that is necessary is to present the bill to the potential recipient with the back side up. And it goes without saying that the highly organized criminal element in our society -- especially with the readily available technology for color duplicating -- will find a profitable way to print and pass counterfeit $1 bills.

Stated simply, any savings obtained by virtue of offset printing of backs will be far outweighed by a corresponding increase in the amount of counterfeiting. Not only does our Treasury stand to lose revenues, but countless numbers of innocent people will be defrauded as well. The federal government will also be required to increase law enforcement efforts, and currency-related offenses will place even greater pressure on our already overcrowded judicial and penal systems.

CONCLUSION

There is absolutely no need to pass legislation authorizing offset printing of the backs of $1 bills. No credible evidence supports the claim that offset printing is cheaper or more efficient than intaglio printing given the present state of technology at the Bureau and its highly skilled workforce. Conversely, our consultant's report demonstrates convincingly

that their assumptions, data and justifications are fallacious to say the very least.

Since it is unlikely that any meaningful savings will be involved, there is no reason to compromise the trust that the public places in our currency. This is particularly the case since experience has shown than an upsurge in counterfeiting frequently accompanies the use of a less secure method of printing currency.

Why then is this legislation even being presented to the Congress at this time? I ask this question rhetorically because as a craftsman, dedicated Bureau employee, union official and interested member of the public, I cannot furnish an answer. If there is an answer, it is not one which can withstand the careful and deliberate scrutiny of this honorable Committee.

Respectfully submitted,

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Supplementary Statement of Robert Vass

submitted to Senate Committee on

Banking, Housing and Urban Affairs

in Opposition to S.1120

July 13, 1983

Mr. Chairman, I appreciate the opportunity to make this supplementary statement in reply to arguments advanced by proponents of S.1120 at the Committee hearing on June 22, 1983.

Dependence on High Rates of Overtime to Meet Currency Demand

There is no longer a need to maintain the high rates of plate printer overtime that prevailed in the recent past. For almost an entire decade during the 1970's, the Bureau's management deliberately imposed severe limitations on the Bureau's capacity to print currency and stamps. For example, not a single apprentice plate printer was hired to replace journeymen who died, retired or resigned between 1972 and 1980. As a result the plate printer work force shrunk from 150 to 99.

In 1974, the Bureau also purchased four Magna intaglio presses which it was unable to bring into operating condition for a long period of time. When it succeeded, the presses experienced an exhorbitant amount of "downtime."

These two factors required plate printers to be scheduled to work 12-hour shifts for seven days a week. This work schedule obviously involved an enormous amount of overtime which produced high earnings but also unsatisfactory working conditions. These failings were thoroughly examined and documented in hearings before the Permanent Subcommittee on Investigations of the Committee on Government Affairs, United States Senate on May 1,2 and 3, 1979. As a consequence of these hearings, the Bureau took a number of steps to increase its plate printer manpower and to improve the productivity of its presses.

Just as it took a number of years to drag down the production capability of the BEP, it has taken several years to restore it. The building up process takes at least as long as the tearing down process, but the evidence suggests the Bureau now has considerably more production capacity than it is acknowledging.

Ms. Buchanan has suggested that currency requirements through 1986 can be met with the "continuation of our high rates of overtime." However, the plate printers are no longer mandated to work overtime. They are scheduled to work a 5-day week with a standard shift as opposed to a 7-day week and a 12-hour shift which was the norm earlier.

What is the result of this policy? The Bureau is currently ahead of its currency production schedule. Clearly, there is no need to continue high rates of overtime. Morever, the available plate printer work force will expand within the next year. At the present time there are 133 plate printers who are qualified to operate the presses — a substantial increase over the recent past. In addition, eleven apprentices will be qualified to operate the presses as part of a two-person team by April, 1984 and seven more the following year.

This means additional equipment can be placed into operation. In July, 1983 four new I-8 presses will be installed as replacements for existing presses. However, there is no plan or need to dismantle the older presses. Once the apprentices are qualified, it would be possible to operate an average of 14 presses per shift in FY 1984 rather than only 12. This, too, will increase production capacity.

Given these facts and those mentioned in our earlier statements, it is clear that BEP can meet the projected demand for currency in the forseeable

future without depending on the extent of overtime which was required in the past.

Since there is no need for extensive overtime to meet currency demand using the intaglio printing process, the $1.9 million alleged overtime savings to be derived from switching to offset printing is, of course, totally fictitious.

Projected Demand for One-dollar Notes

The Federal Reserve System supplied the Committee with the printing orders for federal reserve notes for fiscal years 1970-1987. The data for fiscal years 1970 through 1982 represent actual orders, while those for FY 1983 through FY 1987 are projected orders. (Note: The table shows FY 1983 as an actual order but since the year is not completed, it can only be a projection. In addition, it differs from the data used by BEP for FY 1983.)

An examination of recent trends is very enlightening. From fiscal year 1978 through FY 1982, the one-dollar notes declined as a proportion of total notes — from 59.2% to 51.4%. The trend is obviously down. In FY 1982 only 146 million more one-dollar notes were printed than in FY 1978, but the total notes produced climbed by 805 million. Thus, the one-dollar note comprised only 18% of the growth in demand and production.

This contrasts sharply with the projection for FY 1983. It shows a total growth in notes of 337 million over the FY 1982 level, but one-dollar notes comprise 243 million of that increase — or 72%. Such a drastic reversal in the trend requires some explanation, as does the projection that one-dollar notes will comprise 52 percent of the total demand for notes in the forseeable future.

The Federal Reserve System did not offer an adequate justification for these projections. Moreover, as we pointed out earlier, the automatic bank

teller machines do not dispense one-dollar bills. Stated simply, these projections are at best self-serving and in all likelihood overstated as well.

Plate Printer Layoffs

Ms. Buchanan claims that no plate printers will be laid off or RIF'ed if the BEP utilizes offset printing on the back side of the one-dollar bill. Yet, in discussing savings, she contends there will be a direct savings of $1.3 million "by utilizing pressmen in lieu of plate printers" (underlining added).

The savings estimates are based on the FY 1983 production goal of 4.6 billion notes. Since that goal will be reached using solely the intaglio process, the estimated direct labor savings can only come from laying off plate printers and replacing them with pressmen. In short, a substantial RIF of plate printers is the necessary result of the enactment of S.1120.

One-dollar Notes Produced Using Offset Printing

The Committee was furnished sample one-dollar bills printed using offset print on the back side. These samples were printed several years ago using a hand-fed proofing press under laboratory conditions. The bills were obviously carefully selected to be used as samples.

It has yet to be proven that web-fed offset presses can print U.S. dollar bills of sufficient clarity, consistency and quality to be readily acceptable to the American public.

Position of AFL-CIO

Mr. Meese testified that the AFL-CIO is neutral on the issue of substituting offset print for intaglio in the production of the back side of one-dollar bills. This does not appear to be the case.

Certainly, the AFL-CIO has not taken an official position concerning S.1120. However, it has taken a position on this issue in the past. At its

convention in 1957 the AFL-CIO passed the following resolution:

> RESOLVED, That the Second Constitutional Convention of the American Federation of Labor and Congress of Industrial Organizations, in Convention assembled at Atlantic City, New Jersey, December 5, 1957, go on record in favor of enactment of legislation by the Senate and House of Representatives of the United States of America that notwithstanding any other provision of law the faces, backs, and tints of all United States negotiable securities, United States paper money, Federal Reserve notes, United States postage and all other stamps that are now being plate printed from engraved (intaglio) plates in the Bureau of Engravingn and Printing, shall continue to be so plate printed from engraved (intaglio) plates, together with the designing and engraving necessary for the accomplishment thereof, shall be done in the Bureau of Engraving and Printing in the Department of the Treasury; that the technique and/or quality of the engraving, the printing, and the paper upon which they are plate printed shall not be reduced or simplified merely to accommodate automation.

That resolution has never been rescinded. It is still in effect. Mr. Meese has misstated the AFL-CIO's position and in doing so brought discredit to the labor movement.

Once again I wish to thank the Committee for allowing me to supplement my earlier statement. I will be very happy to answer any additional questions you or your staff may have.

Statement of James J. Kilgallon

submitted to the
Senate Committee on Banking, Housing and Urban Affairs
in Opposition to S. 1120

June 22, 1983

Mr. Chairman, my name is James J. Kilgallon. I am president of the economic consulting firm of Ruttenberg, Friedman, Kilgallon & Associates, Inc. Our office is located at 1211 Connecticut Avenue, N.W., Washington, D.C. 20036.

Over the past several years, I have conducted a number of analytical studies on behalf of the Washington Plate Printers Union. As a result, I am familiar with the operations at the Bureau of Engraving and Printing and the data maintained by the Bureau.

I would have preferred to have testified before the Committee in person. However, we were not made aware of the hearing until June 13, 1983, barely a week and a half ago. Unfortunately, I have a prior commitment to testify in a court case in the Midwest on June 22, 1983 and that hearing date could not be rescheduled to accommodate me. Since I cannot appear before the Committee in person, I welcome this opportunity to present written testimony in opposition to S. 1120.

S. 1120 would authorize the printing of the back side of the $1 denomination of United States paper currency by a method other than the intaglio process. There appears to be two reasons advanced in support of this rather drastic change in the production of U.S. currency.

The rationale employed outside of BEP is that the printing of a "cheap" dollar will save money by introducing economies in the production process. The reason given to those employed inside of BEP is quite different — namely, that unless the back of the $1 bill is printed using offset, the Bureau will be forced to contract out the printing of postage stamps to the private sector.

This, of course, would result in the loss of jobs within the Bureau. It is a scare tactic which has been successfully used to coerce a number of unions to endorse the proposed legislation.

I will examine the validity of both of these propositions later in my statement. Before that, two more basic issues must be first addressed in order to fully assess the merits of the proposed legislation.

General Public Acceptance of "Cheap" Currency

The general public is very comfortable and secure having United States currency printed using the intaglio process. It has confidence in a currency which has not been altered substantially in many years. Conversely, the public record is quite clear that the American populace will not accept a change which appears to undermine the value of our currency.

We don't have to look back very far in history to discover aborted attempts to save costs in the production of money. The drive to substitute the $2 bill for extensive use of the $1 bill and the introduction of the Susan B. Anthony dollar coin were dramatic failures. Instead of saving money these experiments wasted millions of dollars. Even today, it costs money to store these unused bills and coins. They sit idle, incurring costs rather than providing savings.

The earlier attempts involved efforts to introduce substitutes for the $1 bill. This proposed legislation too would substitute a cheaper bill for the existing dollar. Based on prior experience, it appears the general public does not want its currency tinkered with. There is no evidence the public's attitude has changed since it adamantly refused to accept the Susan B. Anthony dollar coin.

Given these previous lessons, it is difficult to understand why this

Administration is seeking to alter the composition of currency without first determining whether the American public will accept the revision. Moreover, this Committee, having twice in the past gone along with proposals which failed, should not be asked to once again agree to currency alterations which have not been thoroughly studied and proven feasible.

Why can't we learn from past experience? Why must we hurry to make this change without thoroughly studying its feasibility and desirability?

No Compelling Need to Alter the Printing of Currency

In view of the uncertainty with which the general public will greet a change in the make-up of the dollar bill, is there a compelling need to print the back of the $1 note using the offset process? The answer to this question is emphatically "no"! The demand for currency can be met for the foreseeable future, while continuing to use solely the intaglio process for printing both sides of all currency.

In the material that the Bureau of Engraving and Printing has prepared in support of S. 1120, it acknowledges that current BEP currency production capacity is 5.2 billion notes per year. However, the Bureau fails to discuss what its capacity will be by the end of this fiscal year and in fiscal year 1984. In fact, the Bureau has already purchased four new I-8 intaglio presses which will be delivered and installed before the end of this fiscal year. The floor where these presses will be placed has been reinforced and the renovation of the area is virtually completed. The new presses are in the process of being shipped in; they are expected to be operating in late summer.

The omission of this fact by BEP in its briefing paper is very, very significant — if not intriguing.

Currently, the Bureau already has four I-8 intaglio presses in operation.

Two of them were placed in service within the past fiscal year — one of them at the very end of FY 1982. The water wipeable I-8 intaglio presses are much more productive than the other intaglio presses used by BEP. The Bureau contends that 31,000 sheets of currency are produced per shift. However, the four I-8s currently in operation produce an average of 36,000 sheets per shift. This means that the other presses average less than 30,000 sheets per shift. In other words, the I-8 presses are more than 20 percent more productive than the other presses. In addition, they have a lower spoilage rate.

We can assume that the four I-8 presses which are expected to be in operation before the end of this fiscal year originally will replace four of the older presses. The production capacity of the four I-8 presses will be 20 percent greater than the total for the four presses they replace. The four new I-8 presses will represent one-third of the average number of presses (12) which operate per shift, so the total production capacity will be increased by 6.7 percent. Thus, the current BEP currency production capacity of 5.2 billion notes will be increased to 5.55 billion within a year. I wish to emphasize that this will be accomplished with no net increase in equipment and no increase in manpower.

The projected demand for currency is only 5.4 billion notes in FY 1984, well below the expected capacity of 5.55 billion notes which is readily achievable by the end of FY 1984. However, in the spring of 1984 eleven plate printer apprentices will be qualified to operate the presses. Working with journeymen plate printers, they will be able to put back into operation two presses on each of three shifts. This means that the FY 1984 production capacity will, in actuality, be much greater than 5.55 billion notes. Further, in FY 1985 an additional 7 plate printer apprentices will be available to put an

additional press into operation. This will allow BEP to attain the projected demand for FY 1985 of 6.0 billion notes.

A steady program of phasing in I-8 presses for the less efficient older presses will assure that the projected demand for currency in FY 1986 and FY 1987 can be readly met without any increase in manpower while still minimizing the need for overtime.1/

In addition, the Bureau has indicated that by the end of FY 1987 it expects to have in operation a web-fed intaglio press. It will print the backs by intaglio process and immediately following would produce the fronts. Two more such systems are expected to be delivered by FY 1990. The Director of BEP testified to this in February, 1983 when he appeared before the Subcommittee of the House Committee on Appropriations. This equipment will obviously increase the production capacity well beyond 7.5 billion notes annually and, thereby, meet any anticipated currency demand while maintaining the intaglio process.

The improvements in production and cost-savings which will follow the introduction of the four new I-8 intaglio presses can be discerned by examining the experience since the last two I-8 presses were put into operation. First, the Bureau no longer requires plate printers to work overtime on Saturdays and Sundays. The overtime work is now handled on a voluntary basis. Second, the currency production is well ahead of schedule. For example, June's order for currency was being worked on during the latter part of May and the Bureau is even further ahead of the postage stamp production schedule. Third, the cost of currency production has dropped markedly. In its report in support of S. 1120,

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1/Interestingly enough, Mr. Leuver, the Director of BEP, testified only a few short months ago that:

> As far as meeting requirements of customers within that longer range plan, we should have no problem over the next five years.

He did not say this projection depended on using offset print on the back side of the one dollar bill.

BEP originally showed that in FY 1982 the cost of printing (intaglio) 1,000 notes was $12.12. For the first six months of FY 1983, the cost had dropped to $11.51 per $1,000 notes.

These savings are very significant indeed. The projected 4.6 billion notes to be produced in FY 1983 will cost $2,806,000 less than would have been the cost had there been no improvements over FY 1982. However, this is an understatement of the likely savings. Each month improvements are made, so the savings for all of FY 1983 will be greater than those shown based on the performance for the first six months of the fiscal year.

Clearly, when all the relevant facts are assessed, there is no compelling need to switch printing the back side of $1 bills to the offset process.

Cost Savings to be Derived from the Offset Back

Are the cost savings to be derived from using the offset process in lieu of intaglio printing so large that the risk of lack of public acceptance of the cheap dollar is a risk worth taking considering there is no real need to do so? The answer again is emphatically "no"!

The BEP contends that the savings in making the switch will amount to $5.4 million. This is a highly inflated, inaccurate, undocumented estimate of savings as shall be shown below. Since we were not furnished the underlying data and work sheets supporting BEP's estimates of savings, we have experienced some difficulty analyzing them. Nevertheless, some of these estimates are so clearly wrong that all of the claimed cost savings are suspect.

The biggest saving ($1.6 million) is expected to be derived from reducing or eliminating overtime. However, as demonstrated earlier, once the four new I-8 intaglio presses become fully operational, overtime will be eliminated any way. Therefore, there won't be any overtime savings to be gained by moving to

offset printing.

There are other mythical savings claimed by BEP. Currently the I-8's print two-thirds of the $1 backs. Once the four new I-8 presses become operational, 100 percent of the $1 backs will be printed by these presses. The I-8 press does not require wiping paper. Therefore, the alleged savings of $321,000 in wiping paper claimed by the Bureau is totally fictitious.

The BEP claims there will be an annual savings of $29,000 in plates. This calculation appears to be based on the experience of the older, paper-wipe presses. These presses average 250,000 sheets of currency per plate. The I-8 intaglio presses are much more efficient. They have averaged 1,149,226 sheets per plate. Thus, the I-8 presses get 4.6 times as many sheets of currency from each plate as do the older presses.

As a result, the cost savings on plates, at best, would be a little over $6,000 not the $29,000 estimated by BEP.

Similarly, in recent months, the pre-wiping system has been eliminated from the I-8 presses. They now get 20 to 25 percent more sheets of currency per drum of ink than they did previously. Apparently BEP has overlooked this fact also in its zeal to show large savings.

The Bureau assumes that spoilage using the offset process will be the same as for intaglio printing. There is no basis for this assumption. BEP originally asserted that the spoilage rate for intaglio printing was 11 percent. When challenged on this, the Bureau reduced the spoilage rate figure to eight percent. The Bureau then simply reduced the spoilage estimate for offset printing to the same eight percent. This is not a small item. It is estimated that each percentage point of spoilage costs the Bureau $1 million.

According to internal BEP records, the actual spoilage on the I-8 presses

printing the backs of dollar bills is between two and three percent — not eight percent. (The eight percent is the average for both sides for all bills on all presses and the most recent figure is seven percent.) This is true as of a June 7, 1983 report. Apparently, this Committee is being asked to accept on faith that the spoilage rate for the offset presses when printing dollar backs will also be between two and three percent. Obviously, there is a need for some documentation.

In any case, the downtime caused by spoilage will be much greater on the offset web-fed press than for the sheet-fed intaglio press. For example, if a sheet is off register and causes the press to stop, the sheet can be pulled out and the press restarted in 30 seconds. On the other hand, a web break will require 10 to 25 minutes to reweb the press. The broken web must be pulled from the press, aligned and spliced. The press must then be restarted and brought up to proper speed for registration and printing purposes. The process is comparable to repairing film torn by a movie projector.

In addition to losing time, the offset press may lose 100 to 300 feet of expensive currency paper on such a break. Yet BEP assumes no difference in the cost of paper between the two processes.

The Bureau also overlooks another cost factor associated with paper. Paper used for currency must be inspected to assure quality. Using sheets, as in the intaglio process, the inspection process is not complicated.

But how will rolled paper be inspected? If the roll must be unwrapped and then rewound as it is inspected, this will obviously be more costly than sheet inspection. If the rolled paper is used without being inspected, the spoilage rate will be high. Spliced paper, foreign matter or holes in the web may also cause damage to the presses. Either way, there is a cost factor

associated solely with web offset printing; this cost has been ignored by BEP in its calculations.

The BEP asserts "an anticipated output of 105,000 sheets per shift was used as a basis for offset printing." BEP offers no documentation in support of this anticipated output. Apart from the lack of substantiation, we believe the estimate to be an overly optimistic projection. Conversely, the Bureau estimates one dollar back intaglio printing at 31,000 sheets per shift. This is an unduly low estimate. As mentioned earlier, the I-8 intaglio presses are currently producing 36,000 sheets per shift. BEP contends elsewhere that the output of an offset press will be three to four times greater than an intaglio press. Assuming the unsubstantiated figure of 105,000 per shift is accurate — which is not the case — the ratio would be slightly less than three to one, since the intaglio I-8 presses produce 36,000 sheets a shift (a documented figure). The real ratio is likely to be substantially smaller than that. Yet the Bureau appears to make its cost estimates based on a ratio of four to one.

In making wage comparisons between offset pressmen and plate printers, the Bureau makes still another error which inflates the alleged savings. It used an hourly wage of $16.85 for offset pressmen. This may be accurate for offset printers who operate sheet-fed presses, but the Bureau plans to use web-fed offset presses. The journeymen offset web pressmen at the Government Printing Office are currently paid $17.79 per hour. This is the rate which would have to apply at BEP as well — not $16.85.

The fringe benefit costs used by BEP also distort the facts. The Bureau simply applies a ratio of 33 percent to the wage rate to estimate the cost of fringe benefits. This is obviously false and inflated. For example, the government pays the same premium on medical insurance for all employees

regardless of their pay rate. In percentage terms, therefore, the fringe benefit costs would be lower for those with the higher wage rates. In short, the Bureau's estimates of cost savings are not only unsubstantiated by documentation but their calculations are saturated with gross errors -- all of which tend to inflate the alleged savings.

We are aware this Committee recently asked the General Accounting Office to analyze the estimates of cost savings. We are also aware the GAO investigators were not given adequate time to conduct a satisfactory study. We believe a thorough study should be undertaken. The risk is too great to rely on a rush job.

Based on the information made available by BEP, the alleged cost savings must be considered excessively inaccurate and totally unreliable. The potential savings from shifting to offset printing for the back side of the $1 bill is only marginal at best. They certainly don't warrant the risk of public rejection of the "cheaper" dollar.

Whatever savings are gained by substituting offset for intaglio printing of the back of the one dollar bill, they will diminish over time. According to the Federal Reserve Board, one dollar bills constituted 55 percent of all the notes printed in FY 1979. Four years later, the BEP is basing its calculations on the assumption that $1 bills will comprise 50 percent of the total notes printed in FY 1983. This is a substantial reduction in percentage terms, especially over such a short period of time.

This trend is not only likely to continue but to accelerate in future years. The automatic bank teller machines are proliferating at a rapid rate. They require crisp, fresh bills to operate most effectively and will likely increase the demand for printing currency. The notes will not stay in

circulation as long as in the past.

But the machines do not dispense one dollar bills. They use only the larger denominations. While the demand for newly printed currency may rise rapidly, the need for one dollar bills is not apt to keep pace. If there is any advantage to printing the one dollar bill using offset print -- and the potential cost savings are very slight — it will diminish significantly over time.

Contracting Out the Printing of Postage Stamps

Bureau management has bludgeoned a number of local union presidents into signing statements indicating their support of S. 1120. Their support is not based on the merits of the legislation but rather reflects their fear that their membership will lose jobs if the legislation does not pass.

They have been told that if the one dollar bill continues to be printed using solely the intaglio process, more plate printers will need to be hired. Since the Bureau has a personnel ceiling, they were informed the new plate printer positions would be at the expense of their membership. They would suffer layoffs or RIFs.

Second, they have been told plate printers would need to be shifted from postage stamp production to currency production. The postage stamp program would then be put out for bid to private contractors. Their membership, whose work is related to postage stamp production, would thus be subject to layoffs or RIFs.

This is a scare tactic of the worst kind. It is totally unnecessary and inappropriate.

As pointed out earlier in this statement, the currency production capacity of the Bureau will far exceed the demand for currency notes projected

through FY 1987 if the BEP carries out its announced plans. The foreseeable demand can be met with the same number of plate printers that are currently on the payroll. And it can be done by eliminating or minimizing the need for overtime.

If the dollar bill continues to be printed on both sides using the intaglio process, there will be absolutely no need to hire additional plate printers or to shift them from the postage program to currency production. There will be no need to layoff or RIF other Bureau employees. In fact, overtime will be virtually eliminated for both plate printers and other workers.

The threat of RIFs being made by Bureau management is an idle threat. The facts do not support the need for such an action. The reasons BEP is advancing such a threat are difficult to discern.

In recent testimony before the Subcommittee on the Treasury, Postal Service, and General Government Appropriations of the House Committee on Appropriations both Robert Leuver, the Director of the Bureau of Engraving and Printing and Ms. Cora Beebe, Assistant Secretary of Administration, Department of Treasury testified that two studies have confirmed that it is cost effective to have the Bureau produce the majority of stamps.

One study was an internal Treasury study, the other was conducted by Arthur Young & Company. The latter study, in its executive summary, concluded:

> Use of other sources than BEP for any but a select few of the Postal Service's stamp requirements would result in disruptive changes in the current ordering and distribution system.

When asked about these studies by this Subcommittee, Ms. Beebe stated that she was satisfied the studies were correct.

Given the fact that Treasury and BEP management agree that it is more cost effective to print postage stamps in the Bureau and that extensive

contracting out would be disruptive to the current ordering and distribution system, why is Bureau management now making such a threat?

Summary

Authorizing BEP to print the back side of the one dollar bill using the offset process is both unnecessary and unwise because:

1. The general public is not apt to accept the new currency with the same degree of confidence and security that has been the case with the current one dollar bill. The recent experiences with the $2 bill and the Susan B. Anthony dollar coin suggest the American people would not welcome any tampering with their currency.

2. There is no need to experiment with the offset back. With the four new I-8 presses which will become operational shortly and other planned innovations, the Federal Reserve Board's projected demand for currency through FY 1987 can be easily met with current manpower and without the use of overtime.

3. The alleged cost savings made by the Bureau are full of serious errors. They cannot be considered reliable or even indicative. At best, the cost savings appear to be minimal.

4. The continued use of intaglio printing on both sides of the dollar bill will not cause BEP to hire new plate printers and lay off other workers nor will it force the Bureau to have the Postal Service put more stamps out for contract bid. Two studies have concluded such a proposal is not cost effective.

In conclusion, I wish to thank the Committee for the opportunity to present this written testimony. If you have any questions, I will respond to them in writing before the hearing is officially closed.

UNION LABEL AND SERVICE TRADES DEPARTMENT

International Plate Printers Die Stampers and Engravers Union of North America

Affiliated with AFL-CIO-CLC

Statement of Angelo LoVecchio

For Presentation to the Senate Banking, Housing

and Urban Affairs Committee

Mr. Chairman and Members of the Committee:

I am Angelo LoVecchio, former president of the International Plate Printers, Die Stampers & Engravers Union of North America, AFL-CIO. I am pleased to appear before this honorable Committee as the Legislative Representative for our International.

My entire career has been devoted to the craft of intaglio printing. Until my recent retirement, I worked as a journeyman plate printer at the Bureau of Engraving and Printing for over 32 years. Before that, I worked for private employers in the same field for 23 years.

During my career, I have watched the Bureau -- with the support of this Congress -- develop into the largest and most modern security printing establishment in the world. Not surprisingly, the Bureau has earned numerous awards and commendations for producing currency and postage stamps of the highest attainable artistic quality and security during those years.

Since printing from engraved plates was and is an established trade known as Plate Printing, the plate printers and engravers have had for 121 years the honor of engraving and printing the U.S. currency. We received this honor not as a matter of jurisdiction or collective bargaining but as a mandate from Congress. Congress decided that our craft alone was worthy to fulfill the obligation of the federal government to afford the people the greatest degree of artistic quality and protection in their currency to which they are justly entitled. The rare skills of the intaglio process form the heart of the Bureau's operation and the cornerstone of its existence.

HISTORICAL OVERVIEW OF THE SECURITY PRINTING FIELD

The Treasury Department has placed a proposal before your Committee requesting a change in the present law to permit the Bureau to utilize an inferior process for printing the backs of one-dollar bills instead of the high quality, engraved intaglio print required by law on both sides of the $1 bill. Because of the lack of general knowledge in regard to this specialized and rare craft, I would like to discuss briefly some of the technical and practical reasons why it is in the nation's best interest to maintain the high quality of the $1 "greenback."

"The National Currency Act of 1862" created the Bureau of Engraving and Printing. Its mission and function was to manufacture paper money and securities that would be secure from duplication and fraud. The same act clearly defined by law that the notes be engraved and printed and emphasized the point by

naming the agency "The Bureau of Engraving and Printing". (Emphasis supplied.) Utilizing the rare and unique skills inherent in the intaglio process, the Bureau for 121 years -- through depressions, wars and inflation -- has met its responsibility to provide the nation with paper money and securities of the highest artistic quality. With the assistance and cooperation of the plate printers, the Bureau has been able to comply with its legislative mandate to print such currency "as cheaply, as perfectly and as safely as elsewhere".

The proposal to change the law is inconsistent with the objective and purpose of the Bureau. In the 121 years of its proud history of accomplishments, the Bureau has never resorted to reducing the standard of quality required by law in order to reduce the cost of printing our nation's currency. History has repeatedly demonstrated that the printing of documents of value by means other than those of the highest degree of quality carries with it grave consequences and a false sense of economy. We must gain from the experience of our forefathers--men of vision and wisdom--that conducted thorough and exhaustive hearings on this most vital function of the government. As the Committee on Banking and Currency of the House aptly stated in its Report HR 150, Second Session, Forty-Third Congress:

> All these circumstances have satisfied the Committee that the method of printing, numbering, sealing and issuing of the securities of the United States ought to be adopted which will approach the nearest to being absolutely secure against error and fraud even if such methods be more expensive than others having less guarantee of protection. (Emphasis in the original)

It is an undisputed fact that the intaglio process is superior to the offset process especially in the field of security printing.

THE ENGRAVED INTAGLIO PROCESS OF PRINTING VERSUS THE OFFSET PRINTING PROCESS

The intaglio engraved print is obtained by compressing paper under tremendous pressure into an engraved design on a steel plate which receives the ink below the surface of the plate. This absorbs and binds the thick viscosity of special intaglio ink into the fibers of the paper, permitting the delicate background, fine lines, shadings and deep lettering to print in a clear and distinct manner while at the same time creating a light embossed image of the design on the opposite side of the note.

Unlike the cheaper surface process of printing, the intaglio print is characterized by a third dimensional effect which is due to the variation in the thickness of the layers of ink that form the image which rises above the surface of the paper to reflect varying depths of the engraved design. This results in a high quality print of durable nature, highly resistant to chemicals, soiling and wear and -- most importantly -- cannot be duplicated by any other process of printing.

No other process can maintain the consistent quality of the intaglio printing. The same fidelity of impression and color consistency is maintained between first document and one millionth document. This is so because the steel engraved plate resists any distortion of the engraved design and the depth of

the engraving controls the amount of ink received by each impression.

Documents printed by the surface offset methods lack these characteristics. Due to the vagaries of the surface printing process, the ink feed mechanism and sensitivity produce a wide color variation over any given number of documents. The surface offset print is obtained by a light contact of pressure, transferring a shallow flat light application of soft grease-based ink on the surface of the paper. This shallow application of ink, not having been forcefully attached to the document by heavy pressure, produces an impression of less durable quality--one that deteriorates and soils more rapidly than the intaglio print and is highly susceptible to critical alteration on contact with chemicals and detergents.

The durability of the three dimensional, high quality engraved intaglio print on both the face and the back of our currency should be maintained because it presents the greatest difficulty to photographing and counterfeiting. Not only are intaglio printed notes difficult--if not impossible--to duplicate, but over time they are cheapest to produce because it stays in circulation far longer. The protective features and portraits of the engraved process coupled with the thick viscosity ink that is forceably attached into the fibers of the paper, also form a protective coating on the surface of the note and thereby maintain the fidelity of the printed image--a feature of utmost importance in printed documents of value. In short, the intaglio process produces currency which is more durable,

resists chemical alteration and lasts longer than any other process of printing.

If the offset backs ever go into circulation, it is my considered opinion there will be an upsurge in the counterfeiting of $1 bills. This Committee is well aware of the fact that counterfeiting has reached an all time high in the history of the nation. It has become so prevalent that clerks in stores have been instructed to give special attention to large bills when they are presented for purchase. Given the attention commonly paid to higher denominations, the counterfeiter inevitably will be enticed into switching to the lower bills. By presenting the green side up at a transaction, the counterfeit bill would escape detection completely. It stands to reason if the back of the $1 bill is printed by an offset process, it will provid an ideal medium for simulation. Not only can the exact document be reproduced, but it will receive little or no scrutiny because of the low denomination in these inflationary times. In these circumstances, it is unrealistic to assume that there will not be an increase in counterfeiting, accompanied by a corresponding increase in court cases and a greater overcrowding of our penal institutions.

The engraved "greenback" of the dollar bill is more necessary today than when the original law was enacted. Recent technological advances have increased the abilities of counterfeiters. The security of our currency is thus threatened by ready availability of presensitized pla es and duplicating offset equipment which can be found in every village, town and

state of the United States and around the world. The more recent technological development of the "color reprographic" production, which can duplicate the "greenback" of the dollar bill like a xerox machine, poses an even greater threat to our security.

Technological advances underscore the need for the government to produce securities by a method entirely different than those widely employed in the commerical world. While other industries direct their research to finding easier ways to make a product, the intaglio-security industry tries to find more complicated and difficult designs to print, thereby making it so difficult to duplicate that to do so is unattractive to those undeterred by moral considerations or threat of punishment.

Since the success of the counterfeiter depends on imitation of the genuine article, and because of the few people having the special skills to execute the art of engraving and plate printing, the Congress determined that the intaglio process affords the nation the greatest attainable security against counterfeiting. Congress long ago mandated by law that all notes be engraved and printed. The wisdom of our forefathers should not be lightly disregarded.

CONCLUDING COMMENTS

It is my sincere conviction that the proposal to change the law is unnecessary, ill-conceived and misguided. In my opinion, it will become the third colossal misjudgment in the last decade, following the $2 bill and Susan B. Anthony coin.

Why then is this legislation being considered again? Its proponents say to help reduce the budget deficit. This is simply

not true. An independent agency whose operations are not subject to the federal budget -- the Federal Reserve Board -- issues the $1 bill with all of our currency. The Federal Reserve, in turn, pays for the cost of printing currency from profits made in its open market transactions. As a result, these costs are not included in the budget appropriation request made by the Department of Treasury on behalf of the Bureau of Engraving and Printing. Stated simply, the cost of printing $1 bills has no impact on the federal budget.

The real strength of the currency is the confidence that people place in it. The excellent workmanship of the engraved design and distinctive features of the intaglio process are embedded in the public's mind as a symbol of genuineness of the currency. It reflects the character, strength and integrity of America's greatness and generates a psychological impression of confidence in our currency. It is reasonable to assume that had the present law been amended in the past, leaving the quality standard at the discretion of the agency, we would not have maintained to the present day the most secure printed currency in the world.

The United States is considered the banker of the world. The dollar has become the most desirable and acceptable medium of exchange circulating throughout the capitals of the world. The dollar occupying this important position in the world offers a tempting target to international counterfeiting, which would realize additional profits in exchange for foreign currency. At this crucial period in our history when confidence in our currency is under severe test throughout the world, a process of

printing which diminishes the superiority of engraved currency should not be enacted into law.

Testimony from our local union revealing that plans have been completed to eliminate the "problems" which the Bureau uses to justify changes in the law will be presented to the committee. These plans call for additional, efficient high-speed intaglio currency presses which are already on order. They also include in the very near future the installation of a high-speed web press that will simultaneously print both sides of the currency by the intaglio process. These presses will increase production capacity and substantially reduce printing costs. Hence, it would be a disservice to the American people to diminish the high standard and security in their most popular note, the $1 greenback.

It is, therefore, respectfully requested that the proposed change in the legislation be rejected. I have attached to these remarks a copy of a Resolution passed by the Union's International Convention in May of this year expressing our membership's resolve in opposing the pending legislation. In closing, we urge the Committee to preserve the intaglio process which has demonstrated its merit in safeguarding the U.S. currency since 1862. We request your help in maintaining the excellence of our currency, which is known as a symbol of dignity and quality around the world.

Respectfully submitted,

Angelo LoVecchio

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Phone: 920-0339

UNION LABEL AND SERVICE
TRADES DEPARTMENT

International
Plate Printers Die Stampers
and Engravers Union of
North America

Affiliated with
A.F.L.-C.I.O.-C.L.C.

RESOLUTION

WHEREAS

Because of "Recent Problems" the Bureau management has requested they be permitted to reduce the high standard quality mandated by present law in order to effect economy in printing the most popular note of the United States currency, the one dollar "Greenback" by the offset process. And

WHEREAS

A historical review reveals that the dollar "Greenback" was born on August 28, 1862 when the Congress authorized the issue of $150,000,000 on the credit of the United States. When these notes were authorized there existed in the nation a distrust of paper money. This was due to the fact that the simple surface printed note was an easy target for duplication and fraud. This resulted in excessive counterfeiting and undermined the confidence of the people in the validity of the Government's paper money, and

WHEREAS

In view of this, Congress conducted a thorough study to determine a policy and method that would restore and maintain the confidence of the people in the paper money issued by the United States Government, and

WHEREAS

It came to the attention of Congress that a small industry had advanced the art of

Engraving and printing, specializing in hand engraving executed on copper and steel with the highest perfection of design in printing paper money and documents of value. This process defied duplication by any other process of printing. While other industries directed their research to find easier ways to makeo product, the conscientious Intaglio security industry seeks to find more complicated and difficult designs to print making it more difficult to duplicate and

WHEREAS

The success of the counterfeiter depends on the imitation of the genuine issue and because very few people have the special skills and equipment to execute the art of hand engraving and plate printing and the difficulty of imitating the impressions of artistic beauty, the Congress determined that this process, known as the Intaglio process, affords the people the greatest attainable security against counterfeiting and meets the requirement of the Committee of Congress that method of printing the United States currency be adopted that approaches the nearest to being absolute secure, therefore they mandated by law that the notes be engraved and printed, and

WHEREAS

The National Currency Act of August 28, 1862 created the Bureau of Engraving and Printing, its mission and function was to manufacture paper money and securities that would be secure from duplication, and fraud. Its mission was further emphasized by naming the agency the Bureau of Engraving and Printing,and

WHEREAS

For 121 years since the inception of the Bureau members of our craft Engravers and Plate printers have had the honor of printing the United States currency, we received this honor not as a matter of jurisdiction or collective bargaining but as a mandate

from Congress, and

WHEREAS

A review of its proud history of accomplishments confirms that the Bureau has never resorted in reducing the standard of quality required by law in order to effect economy in printing the United States currency. By utilizing the rare and unique skills inherent in the intaglio process, it has for 121 years through depressions, wars and inflation met its responsibility to provide the nation with paper money and securities of the highest artistic quality at cost, complying with the law that they be printed as "cheaply, and Safely as elsewhere" and

WHEREAS

The wisdom of Congress in setting a standard by law indicates that in one of the most vital functions of the government the integrity and quality of its paper money shall not depend "on space requirements," "manpower recruitment," "inflation" or the "acquisition of equipment." Documented evidence reveals that the "recent problems" are the result of unusual and temporary circumstances created by a series of unwise managerial judgments and decisions. The problems were not created because the backs of the one dollar bills are printed by the intaglio process, and

WHEREAS

Documentary records confirm that many times in the past the Bureau met and solved the same problems which it now seeks to justify in requesting a change in the law, and

WHEREAS

A change in the law is inconsistent with the mission and purpose of the Bureau. We must not ignore the lessons of history that to print documents of value by other than the highest degree of quality has resulted in grave consequences and false economy.

We can profit from the recent experience of the Bank of England that was enticed by the anticipated economy of the offset process and found that due to rapid deterioration and soiling of the offset printed note, the expected savings did not occur, and

WHEREAS

It can be said that when considering the purpose served, the high quality Intaglio printed note that is characterized by a third dimensional effect highly resistant to soiling and wear and the most difficult to duplicate is cheapest in the end. Therefore, adopting a cheaper and inferior method far outweighs the savings. At a crucial period in our history when the confidence in our currency is under severe test throughout the world, a process that diminishes the psychological effect generated by the high quality of our engraved currency should not be utilized, and

WHEREAS

It is reasonable to assume that had the present law been amended in the past leaving the quality standard at the discretion of the agency we would not have maintained to the present day the most secure printed currency in the world.

THEREFORE,

Be it resolved that the International Plate Printer Die Stamper and Engravers Union of North America petition the Congress that it is in the national best interest to reject Senate Bill 1120 and to maintain the time tested Intaglio process of printing the one dollar "greenback" which has demonstrated its merit of safeguarding the United States currency since 1862.

BE IT FURTHER RESOLVED

That the International seek the help and involvement of the AFL-CIO in informing the millions of Americans who are vitally concerned in the integrity of the currency that they use in their daily business transactions throughout the medea, television and newspapers to petition the Congress to reject Senate Bill 1120 and maintain the Intaglio high standard quality of the dollar "Greenback" which circulated throughout the world, reflecting the quality and integrity of America.

UNIONS DIFFER ON PROPOSAL

The CHAIRMAN. Thank you, Mr. Vass.

As I said in my opening statement, we have witnesses on both sides of this issue with different sets of figures, and that's why I have asked the General Accounting Office to give us an objective analysis of the cost figures (see p. 81). It isn't a matter of them not having been given time. There is no interference with their analysis. It was not possible for them to complete that study prior to this hearing today. They will be given sufficient time to come up with an objective analysis for this committee.

We also don't accept anything on faith. We will check out these differing claims.

Your request to keep the hearing record open for 5 weeks I think is unusually long and in the normal process we have the hearing record open for at least 3 weeks. I think that would be adequate time on an issue that doesn't seem overly complicated here. For anyone else you have who wishes to submit statements, we will be happy to receive them, but I think the normal process would be sufficient to produce those statements.

Gentlemen, it's not very often that we have union representatives testifying before this committee on both sides of an issue. It's my understanding that the AFL–CIO is neutral on the issue. Is that the case?

Mr. MEESE. That is accurate, Mr. Chairman.

I would like to correct or be certain that it's understood that the unions that I'm here to represent today who have taken a position endorsing the Senate bill 1120 have done so freely, without intimidation or harrassment of any management officials of the Bureau of Engraving and Printing or the Department of Treasury.

From the beginning of our investigation which has been extensive from the International Association of Machinists, we have had total cooperation from both the Department of Treasury and the Bureau of Engraving and Printing on the information that we requested to support the facts and figures that were given and on any other matter that we thought was necessary to determine our final position.

The CHAIRMAN. I was going to ask you that question because a statement submitted for the record opposing S. 1120, says, and I quote, "The Bureau management has bludgeoned a number of local union presidents into signing statements indicating their support for S. 1120."

So my question was, Have you been bludgeoned?

Mr. MEESE. Not only have I not been, but I was present when the group of organizations that I mentioned before signed this. I was in the room. The entire pros and cons of the bill was discussed not only by them but a number of other unions present, and by going around the room, those determined to or finally deciding to endorse this, placed their name on a position paper which was finally submitted to Lane Kirkland, president of the AFL–CIO. Those present supporting the bill represent more than 80 percent of all the employees represented by the AFL–CIO unions at the Bureau of Engraving and Printing, and it was all done freely, without coercion or intimidation.

The CHAIRMAN. Well, with you having a hairline similar to mine, it would probably be easy to see if you had been bludgeoned.

Mr. MEESE. If I had been bleeding it would be quite obvious, Mr. Chairman.

The CHAIRMAN. Mr. Vass, do you have any idea why there's such a big difference of opinion internally within the Department employees?

Mr. VASS. Well, yes, I do, and I think one of the big reasons is the fact that Mr. Meese had submitted his position approximately 3 weeks ago and he had based that on information that was given to him by the BEP. After this was received, we had a meeting with Ms. Buchanan and the Director. They indicated at that meeting that the information that was handed out was inaccurate; therefore, they did another study and came up with more information. So his decision was reached on this many weeks before the second set of information came out, the same as the information that the Senate received originally has been updated. It has been updated because we're the ones that went to the Bureau and the Treasury Department and told them that the information was wrong.

There is present here today union officers who have been told on the telephone what would happen to them, and told in person what would happen to them, if they did not go along with this bill, what would happen to the membership. If they care to come forward—you know, I don't want to name them—or if you care to have them step forth, well, then, you can hear it for yourself.

It actually happened. But I will say this, I'm not accusing John Meese of this because Mr. Meese was not the one that did this. This happened before he had his meeting last week. At his meeting last week, everything was handled in order. But prior to that meeting there were a lot of things that were done wrong at the BEP.

The CHAIRMAN. Well, I think we should let Mr. Meese speak for himself while he's here as far as his access to information and whether his information is current or not.

Mr. MEESE. First of all, let me correct the record. The information that Mr. Vass has alleged that we used to formulate our final position had no effect on it one way or the other.

We were very much concerned from the very beginning when we saw the increase in notes that we would be involved in investigation of this problem from the position of the International Association of Machinists & Aerospace Workers based on the request of the presidents of both of our locals there. They had concerns.

Having understood our previous positions on matters involving the administration, you can understand that supporting this legislation is not one of our common or regular positions in the machinists union. It was done with a lot of care.

Our concern was basically the protection of jobs of the people we represent there and we believe very strongly that that is the No. 1 priority for every union.

Our final determination was made based on the facts that I have stated here. We could find that there is no information which would oppose passage of this bill. The information overwhelmingly speaks for its passage. It improves production. It's better for the taxpayers, and it protects the jobs long term of all the people at the Bureau of Engraving and Printing, not just the privileged few's

huge amounts of money that has been discussed by previous witnesses.

IS THERE A COUNTERFEITING PROBLEM?

The CHAIRMAN. Mr. Vass, we have had testimony here today not only from the Treasurer but from the Federal Reserve System and the Secret Service that there is no problem with counterfeiting.

Why do you differ with those witnesses?

Mr. VASS. Well, first, Mr. Chairman, if you go to the offset process on the $1 bill, you're doing one-half of the counterfeiter's job for him.

I'd like to say something else and then come back to the counterfeiting if I can.

One thing I have failed to mention here today is that over the past 2 years and including this year the Bureau of Engraving and Printing has met its Federal Reserve order and has met the Postal order even with the increases that we have had and presently. In fact, each employee was thanked by the Director for doing such an outstanding job. This year we are working ahead of schedule on our Federal Reserve order and we don't have the new presses in operation yet. And I didn't hear anyone impress the fact that for the first time in history of the Bureau we have met our Federal Reserve order and our Postal order.

To get to the counterfeiting, if you do, again as I say, if you do half of the job for the counterfeiter, then you can expect to see it increase, and we don't have with us today the documentation, but we disagree with some of the statements that were made here today.

Offset will not hold up as well as intaglio, and there's not an expert in any one of the fields that can tell you that it will, and it will not take the beating and it's not as durable and it can definitely be recognized much easier than what the offset can. Anybody can offset.

The CHAIRMAN. Is counterfeiting a real problem with $1 bills in any event, regardless of how they are printed?

Mr. VASS. Right now I don't think it is a great big threat, but if you do half their job at half their cost—the reason that it's not a great big threat is because it is intaglio on both sides and it's very hard to duplicate and, therefore, the cost is high and they can't do it.

Something else that was said——

The CHAIRMAN. Well, my point there is simply that with the purchasing power of the $1 bill, that if counterfeiters go to the difficult task of attempting to reproduce them, if I were going to be a counterfeiter I don't think I would fiddle around with the $1 bill. I think I'd at least want to go to $10s or $20s.

Mr. MEESE. It would seem reasonably that you would at least want to print one that was in the profit margin if you were able to distribute them.

The CHAIRMAN. There's a massive number of $1 bills you would have to distribute to make any reasonable profit. I just don't see the counterfeiting argument is one that is an important argument one way or another, particularly when the Secret Service has the

responsibility and they're not concerned about it on that issue—the Secret Service is not concerned about it and from a logical standpoint I don't feel that is a particularly valid argument as to whether we do this or not.

Mr. VASS. They're not concerned with it because they haven't been faced with it yet.

The CHAIRMAN. Well, they have been faced with the responsibility of counterfeiting for their entire existence, so I think I would expect that they would know more about it than other departments of the Government.

In response to a question, the Treasurer pointed out that 52 plate printers made more than $61,000 in fiscal year 1983. Do you have any comments on those figures?

REASONS FOR PLATE PRINTERS HIGH WAGES

Mr. VASS. Yes, I do have some comments on that. True, there may have been a percentage of plate printers that made more money than that, but there's a reason behind that. Its because of some unwise decisions by upper management. In the past they purchased inferior equipment, and over the past several years we have suffered because these presses cannot reach full production and so, therefore, we have worked on a 6- and 7-day workweek. Presently, we are on a 5-day workweek and we are meeting our Postal order and our Federal Reserve order. And as long as we keep that up and we have the highest Federal Reserve order in the history of the Bureau this year, and right now we are ahead of that and we are on a 5-day workweek. So the savings on the overtime I think has just about eliminated itself.

The CHAIRMAN. Well, let me be more specific on that question. Do you think that printers in the Government should make more than Cabinet officers?

Mr. VASS. No, but I do believe that the emergencies that have come up and we have tried to meet, such as in the past the gas coupon and food coupon, have required us to work 6 and 7 days a week to meet this demand and also to keep the Federal Reserve order and Postal order up, that those goes——

The CHAIRMAN. Most Cabinet officers put in a great deal of time as well and I doubt if they get by with less than 70- or 80-hours workweeks.

Gentlemen, I appreciate your willingness to come and testify here today. And as far as the figures, I'm not in a position to judge either side. That's why I repeat I have asked the General Accounting Office to see if we can get an objective analysis of the cost figures.

Again, I see that there should not be any problem or argument one way or another as far as counterfeiting. I just don't see that that is a threat whatsoever.

And the record, again, will be open for at least 3 weeks for additional statements that either one of you wish to make or other unions or other parties who wish to make statements for the record.

Thank you very much, gentlemen.

Mr. MEESE. Thank you, Mr. Chairman.

The CHAIRMAN. The committee is adjourned.
[Whereupon, at 10:40 a.m., the hearing was adjourned.]

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Washington Printing & Graphic Communications Union No. 1
OF THE INTERNATIONAL PRINTING AND GRAPHIC COMMUNICATIONS UNION
AFL — CIO

SUITE NO. 303, IVERSON MALL 3737 BRANCH AVENUE HILLCREST HEIGHTS, MD. 20031

OFFICE OF PRESIDENT AND SECRETARY

ORGANIZED 1873

PHONE 423-6670 423-6671

Honorable Edwin Garn
Dirksen Building
Room 305
Washington, D.C.

Dear Mr. Garn:

I am writing in behalf of the Washington Printing and Graphic Communications Union Local No. 1, the exclusive Collective Bargaining Representative for approximately seventy Journeymen Pressmen at the Bureau of Engraving and Printing.

It has come to our attention that the Department is seeking legislation authorizing the printing on the back of one dollar notes by other than the intaglio printing process. We understand this legislation is necessary if currency production requirements are to be met in the future in an efficient and economical way.

Local No. 1 has received assurances from the Bureau of Engraving and Printing that the savings realized through this proposed change would not adversely affect present employees in any way. Based upon this assurance and the expressed need for this legislation, the Washington Printing & Graphic Communications Union Local 1 wishes to go on record as supporting the enabling legislation permitting the back side of one dollar bills to be printed by a method other than the intaglio process.

Sincerely,

John E. Sagner Jr.

JOHN E. SAGNER, JR.
President
Washington Printing & Graphic
Communications Union, No. 1

THE BANK NOTE ENGRAVERS GUILD
OF WASHINGTON, D.C.

I.P.P.U.S.A.E.T.-U.S.A. LOCAL NO. 32

AFFILIATED WITH A.F.L. - C.I.O.

Washington D.C.

June 20, 1983

The Honorable Jake Garn
Committee on Banking, Housing, and Urban Affairs
United States Senate

Dear Mr. Chairman,

Local #32 of the Banknote Engravers Guild of Washington, D. C., submits this letter in opposition of S. R. 1120, a bill which allows the Bureau of Engraving and Printing to implement an offset printing method for the backs of the one dollar bill.

In our opinion, there are several over-riding factors which negate the benefits of any savings which may occur.

First, security documents of value and historic significance should be printed in the highest quality fashion. The implementation of offset printing will greatly reduce the quality, texture, and appearance of the American dollar.

Secondly, this proposed change will enable easy counterfeiting and expand the currently small business in one dollar counterfeits to a potentially damaging proportion.

Third, the projected cost savings may not occur. The Bank of England has found printing of currency in the offset process has resulted in more rapid soiling and reduced life of the banknote. In effect, the offset printed note actually increased cost in the long run. In addition, new equipment acquisition would be required which may add substantially to cost.

In the interest of historic significance, public acceptance, and integrity in quality of production, Local #32 urges the Subcommittee to reject S. R. 1120 and retain the proven intaglio process for all American currency.

Very Truly yours,

V. Jack Ruther

V. Jack Ruther
President

CC: All members of Subcommittee and Subcommittee staff.

UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

GENERAL GOVERNMENT
DIVISION

B-207023

AUG 15 1983

The Honorable Jake Garn
Chairman, Committee on Banking,
Housing and Urban Affairs
United States Senate

Dear Mr. Chairman:

Subject: S. 1120: An Administration Proposal to Print the Backs of One Dollar Notes by Other Than the Intaglio Method (GAO/GGD-83-98)

At your request we have examined the Department of the Treasury's proposal to print the backs of one dollar notes by the offset printing rather than the current intaglio printing method. (See enc.) Simply stated, the intaglio method uses high pressure to force blank currency paper into the lines of an engraved plate to pick up the ink whereas the offset method prints the ink on the surface of the paper as it passes a revolving drum.

Our report was requested after your committee hearings on June 22, 1983, when Treasury officials testified that the proposed conversion to offset printing would result in annual savings of $5.4 million and would assure that the Bureau of Engraving and Printing (the Bureau) could continue its satisfactory service to one of its principal customers, the Federal Reserve System. You asked us to evaluate the Bureau's capacity to produce currency using either the intaglio or the offset method, evaluate the reasonableness of the Bureau's savings projections, and comment on the general advisability of changing to offset printing. The proposal is opposed by some of the Bureau's employee unions and favored by others.

The Bureau probably has sufficient capacity to meet the sharply increasing need for currency for the next 2 years, as indicated by the Federal Reserve banks, whether the backs of one dollar notes are printed by the offset method or by the intaglio method. However, offset currency printing would increase the Bureau's production capacity in fiscal year 1985 and would therefore more surely meet maximum currency requirements. Furthermore, offset printing probably could save in the range of $5 million to $6 million in fiscal year 1984. In addition, other factors discussed in this report favor the change to offset printing.

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OBJECTIVES, SCOPE, AND METHODOLOGY

The main purpose of our study was to examine the Bureau's estimate of its currency production capacity with conversion to the offset printing of the backs of one dollar notes, and without such conversion. We also reviewed the Bureau's estimate of savings which would result from use of the offset method as well as other issues relevant to the advisability of this proposed change.

We reviewed financial and production records of the Bureau and interviewed Bureau officials in the financial, production, engineering, and labor relations areas. We also determined the views and projected currency requirements of the Board of Governors of the Federal Reserve System by interviews with officials in that organization.

Because of the time frame constraints in your request, our review of actual production and financial data was based on summary information and supporting workpapers provided by Bureau staff officials. We verified those data on a limited basis, and we conducted corroborating interviews with Bureau line operating managers. We did not examine and evaluate the Federal Reserve banks' projected currency requirements.

We conducted interviews with union officials, both those opposing and those favoring the Bureau's proposal. We examined the specific objections raised against the Bureau's analysis by Local Number Two of the International Plate Printers, Die Stampers and Engravers Union of North America (the Washington Plate Printers Union), whose president testified before your committee.

Our review was conducted in accordance with generally accepted government auditing standards.

INTAGLIO PRODUCTION CAPACITY
IS PROBABLY SUFFICIENT
THROUGH FISCAL YEAR 1985

Your letter requested us to examine the Bureau's estimated capacity to produce currency, using both the intaglio and the offset printing methods. The testimony presented to the committee on behalf of the Bureau was based upon an internal study dated June 1, 1983. Since that time, two significant developments affecting capacity have occurred which render that study no longer current:

--The Federal Reserve has informed the Bureau that its currency requirements for fiscal years 1984 and 1985 may be 10 percent greater than previously indicated.

--The Bureau has estimated its future intaglio production capacity to be greater than the level that was used in the June study.

The result of these revisions is that the Bureau could probably meet the Federal Reserve's requirement using the current intaglio method for the next 2 fiscal years.

Increased Federal Reserve currency requirements

In July 1983 interviews with an Assistant Director of the Division of Federal Reserve Bank Operations, we were advised that the Federal Reserve banks may order larger amounts of currency than previously indicated to the Bureau. Present reports from the banks show a possible need for 5.9 billion notes in fiscal year 1984, up from the 5.4 billion previously projected, and a possible need for 6.6 billion notes in fiscal year 1985, up from 6.0 billion.

Union officials objected to the maximum 1984 figure as being too high. The Federal Reserve explained that these increases reflect a desire on the part of the Reserve banks to accelerate their program of improving the average quality of all currency in circulation. The amount of currency which will ultimately be ordered is subject to further internal study by the Federal Reserve Board and to negotiation between the Board and the Bureau. We could therefore not justify a revision to the maximum figures used by the Bureau.

Increased estimate of Bureau's intaglio production capacity

In July 1983, after we questioned the earlier June study, the Bureau made another study of intaglio production capacity, and the new study estimates higher capacity for fiscal years 1984 and 1985 than previously indicated. This increase reflects higher productivity recently experienced with the Bureau's newer intaglio printing presses and additional plate printing personnel.

Production capacity is defined here as the maximum amount of currency, expressed in billions of notes, that the Bureau can produce and deliver to the Federal Reserve banks in 1 fiscal year, based on a maximum 6-day work week. Historically, according to the Bureau, approximately one-half of the notes delivered are in the one dollar denomination. Therefore, the proposal to print the backs of only one dollar notes by the offset method

would increase intaglio capacity to produce other denominations of currency by about 25 percent.

A limiting factor to intaglio currency production capacity has been the availability of intaglio plate printers. Offset presses are not only faster than the intaglio presses but offer an additional advantage in that new offset pressmen to operate them are more readily available for hire. Thus, the conversion to offset printing can increase the Bureau's production capacity. The table below shows the Bureau's revised estimate of currency production capacity for fiscal years 1984 and 1985 and compares it to the estimated minimum and maximum Federal Reserve currency requirements for those years.

Production Capacity Compared to Federal Reserve Requirements
(in billions of notes)

Fiscal Year	Federal Reserve Requirements (Minimum - Maximum)	Production Capacity Intaglio Method	Production Capacity Offset Method
1984	5.4 - 5.9	5.9	5.9
1985	6.0 - 6.6	6.1	7.1

After we had completed our audit work, union officials informed us that the Bureau was planning to acquire four new intaglio presses by early 1984 and that new plate printers had just been hired. Since these factors would obviously change the capacity projections, we went back to the Bureau to inquire about these facts.

Bureau officials said that they are negotiating for the acquisition of four newer intaglio presses to replace older ones but that no decision has been made to buy them. The new presses, more productive than the old ones, would be for delivery in fiscal year 1985 rather than in 1984 as indicated in the union comments. The Bureau confirmed that two additional plate printers had been hired. The Bureau's Manager of its Production Management Staff told us that these new resources would increase the 1985 intaglio capacity to 6.3 billion notes, up from the 6.1 billion figure in the table above.

These estimates indicate that conversion to offset currency printing may not be necessary in the next 2 years. Using intaglio printing only, the Bureau can produce the maximum Federal Reserve note requirement for fiscal year 1984 and the midrange requirement for fiscal year 1985. Although the intaglio method could not apparently meet the maximum 1985 requirement, some Bureau officials believe that ways could be

found to make up a possible shortfall in fiscal year 1985 without conversion to offset printing. One possible way would be to hire even more intaglio plate printers, for example.

The Bureau's estimate of intaglio printing capacity is based upon actual current production levels of each of the existing intaglio presses, together with additional production on a comparable basis as new presses and intaglio printing personnel become available in fiscal year 1984. The Bureau's estimate of offset printing capacity is based upon a limited amount of testing but seems reasonable, assuming that similar performance will occur under actual full time operation.

OFFSET PRINTING COULD RESULT IN SAVINGS, BUT AMOUNT IS UNCERTAIN

Your letter requested us to review and comment on the Bureau's principal cost savings estimates in direct labor, plate printer's overtime, and ink used in the intaglio method versus the offset printing method. Since the committee hearings, the Bureau has revised its original 1984 savings estimate of $5.4 million for producing 4.6 billion notes. The new estimates show a range in savings of $5.0 million to $6.1 million for producing 5.4 billion to 5.9 billion notes, respectively. Because of objections raised by the union, we questioned some of the assumptions underlying original savings estimates. At our request, the Bureau revised estimates because of changes in several assumptions about the manufacturing process and because of anticipated increases in currency production volume for the Federal Reserve. The table below shows the Bureau's savings estimates based on the projected minimum and maximum Federal Reserve currency requirements for fiscal year 1984.

Estimated Annual Savings by Conversion To Offset Printing of Backs of $1 Notes (in millions of dollars)

	Federal Reserve Requirements	
Element	5.4 Billion Notes	5.9 Billion Notes
Direct labor	$0.9	$1.0
Plate printing overtime	0.4	0.9
Ink	2.3	2.6
Other	1.4	1.6
Total savings	$5.0	$6.1

The savings will depend on the amount of currency eventually ordered by the Federal Reserve. As production volume increases, total savings will increase due to lower unit costs for the offset method. On the other hand, savings will also depend on the validity of the assumptions underlying the calculations. For example, if the offset presses do not perform in operation as they did in testing, the lower production rates would increase unit costs and hence would lower savings.

On balance, the revised savings estimates are reasonably based if the Bureau's assumptions are accurate. However, we are not able to confirm fully these prospective cost savings because of the difficulty of assessing the several assumptions which underlie these estimates, such as the speed of both offset and new intaglio presses, downtime of the presses, and spoilage of paper stock using each method.

OTHER FACTORS SUPPORT THE OFFSET OPTION

Your letter requested us to examine the advisability of using the offset method to print the backs of one dollar notes. In addition to the probable savings that would accrue, other factors exist that favor the Bureau's using the offset method. First, the change involves few risks. Second, the Federal Reserve, as the sole customer for currency, supports the change.

Change to offset method entails few risks, could be reversed

Changing the printing process could pose potential financial and security risks. However, the risks posed by the Bureau's proposal are acceptable and can be controlled, so they should not preclude adopting the offset printing method.

Because the Bureau already has the offset presses it needs to print the dollar notes, no major capital expenditure is required. Other costs of changing to the offset method exist, such as testing paper, ink, and final products before offset production begins. However, Bureau officials (though lacking precise figures) told us they would be acceptable costs, certainly under $1 million.

Opposing unions have cited the potential for offset to be more vulnerable to counterfeiting and be less acceptable to the public, but these arguments have not been solidly supported. Other countries have used offset printing for currency and found it satisfactory. The Treasury, the Federal Reserve, and the

U.S. Secret Service have said that a one dollar note is not an attractive denomination for counterfeiters; therefore, they discount this argument. Potential public acceptance is hard to measure, but in our inspection of a sample of offset printed dollar backs, we found it difficult to distinguish between intaglio printed and offset printed notes.

Because the proposed legislation to allow use of offset printing does not mandate it, the Bureau can revert to intaglio printing if unacceptable problems occur. Union officials pointed out that consequences exist if a change to offset has to be reversed. For example, the Bureau might fall behind in currency production, and changing back to intaglio production would create normal production restart difficulties.

Certainly there are consequences of reverting to intaglio from offset printing, but the union officials did not demonstrate that the risks of failure would be unacceptable. On the basis of the objections we discussed above, the likelihood of failure is not significant enough to deter trying the offset method.

Federal Reserve still supports legislation

Even though the revised figures shown earlier in this report indicate that the Bureau would probably meet the Federal Reserve's projected currency requirements using intaglio printing, the Federal Reserve still supports the change to offset. An Assistant Director of the Division of Federal Reserve Bank Operations told us that the Federal Reserve expects offset printed currency to cost less than intaglio. The Federal Reserve purchases currency from the Bureau, so it expects lower printing costs to lead to a lower price.

UNION AND AGENCY COMMENTS

The Plate Printer's Union raised several objections to a draft of our report. Union officials said that the draft

--was incomplete in its analysis because we did not challenge certain Federal Reserve currency projections,

--failed to mention an issue regarding the subcontracting of intaglio postage stamp printing as a way to meet increased currency requirements,

--did not discuss the impact of four intaglio presses and new press operators that will be available in 1984, not previously disclosed to us,

--minimized the risk of reversing the decision to go to offset printing, and

--did not note that the Bureau revised its original estimates of production and savings only after the Union and GAO raised questions about them.

With regard to the first point, we were not asked, nor was there time, to evaluate the Federal Reserve's currency projections. We can only note that the figure we used was the best available, and as of the time of our study we had no basis to question the Federal Reserve's projections.

We considered the postage stamp issue but omitted it from the draft report because it was beyond the scope of your request. Briefly, the Treasury told the committee that one of the alternatives for increasing intaglio currency production capacity would be to decrease the printing of postage stamps (also done by intaglio) and concentrate on printing currency. The Treasury said that this could lead to the loss of as many as 1,000 jobs at the Bureau because the Postal Service would contract in the pr vate sector for the work.

We did not review the viability of this alternative, given the time constraint for our review. However, two separate studies, one each by the Treasury Department and the U.S. Postal Service last year, concluded that production by the Bureau of most of the postage stamp requirements is the most desirable alternative. In addition, the Manager of the Stamp Management Branch, Stamps Division, of the Postal Service, told us that it would strongly resist contracting out a significant portion of the current Bureau volume in the foreseeable future.

We incorporated discussion of the last three points in the body of our report.

Officials at the Bureau agreed with the thrust of our draft report. They offered some minor editorial changes which we considered and incorporated as appropriate.

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As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this

report until 30 days from the date of the report. At that time we will send copies to interested parties and make copies to others available upon request.

Please advise if we can be of further assistance.

Sincerely yours,

W. J. Anderson

William J. Anderson
Director

Enclosure

ENCLOSURE

ENCLOSURE

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United States Senate

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS
WASHINGTON, D.C. 20510

June 27, 1983

Honorable Charles A. Bowsher
Comptroller General of the
United States
General Accounting Office
441 G St. N.W.
Washington, D.C. 20548

Dear Mr. Comptroller General:

The Senate Committee on Banking, Housing and Urban Affairs held hearings on June 22, 1983, to examine S.1120, an Administration proposal to print the backside of $1 bills using a method other than the intaglio method. Conflicting testimony was received concerning the ability of the Bureau of Engraving and Printing to increase their capacity to produce currency using intaglio printing for both sides of all currency, and the cost savings that would arise from a printing change on the back of $1 bills.

Before the hearing, I requested that the General Accounting Office examine the figures relied upon by the Bureau of Engraving and Printing which underlie their support for S.1120. The GAO staff involved in that review apparently concluded that the Bureau's figures were reasonable, but shortage of time precluded this opinion from going through the GAO review process and becoming an official GAO position.

Because controversy continues on this issue, I am requesting that the General Accounting Office examine the numbers relied upon by the Bureau of Engraving and Printing concerning

-- the capacity of the Bureau to produce currency meeting the nation's currency needs projected by the Federal Reserve Board if the printing method for the $1 bill is not changed;

-- the capacity of the Bureau to produce currency meeting the nation's currency needs projected by the Federal Reserve Board if the printing of the backside of $1 bills can be webb-offset printed; and

-- the advisability of using a method, other than the intaglio method, to print the back of $1 bills, given the Federal Reserve Board's projected increases in currency notes and the Bureau's capacity to meet those increases.

ENCLOSURE

ENCLOSURE

I am also submitting for your review and comment the principle cost savings estimates (direct labor, ink, printer's overtime) of the Bureau.

I would appreciate a letter response from the GAO as soon as possible, preferably before August 15, 1983, so that we can decide whether or not to proceed with this legislation. If you or your staff have any questions, please contact Linda Zemke of the Banking Committee staff at 224-1564.

Sincerely,

Jake Garn
Chairman

JG:lzk